



# Spin-off : Why Necessary and Appropriate

LG Corp.

March 2021

## Summary

LG Corp.(the “Company”) is pursuing a spin-off of five subsidiaries, including LG International, etc. and the shareholders will get to vote on the Spin-off plan through AGM on 26 March 2021. The Spin-off is strategically essential for the advancement of current business portfolio and the efficiency of resource management. After considering various transaction options, we have concluded that a horizontal spin-off is the most efficient transaction structure to accomplish such goals. Through this Spin-off, the Company will be able to increase corporate value and shareholder profits, which will enable efficient allocation of the Company’s capital and allow for active return of the profits to the shareholders. Furthermore, we would like to explain certain issues that a minority shareholder have raised with respect to the Spin-off and the Company’s governance structure through a separate set of Q&As.

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# 1. Restructuring LG's Portfolio Based on Business Characteristics (Cont'd)

Since the managerial change in 2018, LG Corp. has continued to execute the long-term strategy to increase the competitiveness of its flagship businesses and find new growth engines. The criteria used for classifying and restructuring LG's business portfolio are as follows.



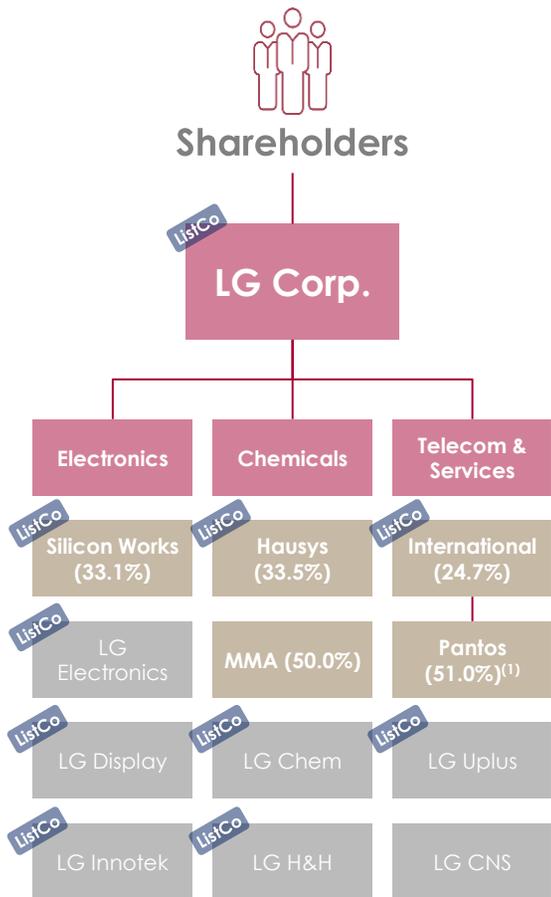
Notes  
1. Independent from LG Corp

# 1. Restructuring LG's Portfolio Based on Business Characteristics

As a result of the Spin-off, the new holding company will be able to implement an independent management and decision-making structure tailored to the characteristics and needs of each spun-off subsidiary. Each spun-off subsidiary will be able to deepen their business expertise to expand beyond the captive market, which will enhance the overall corporate and shareholder value.

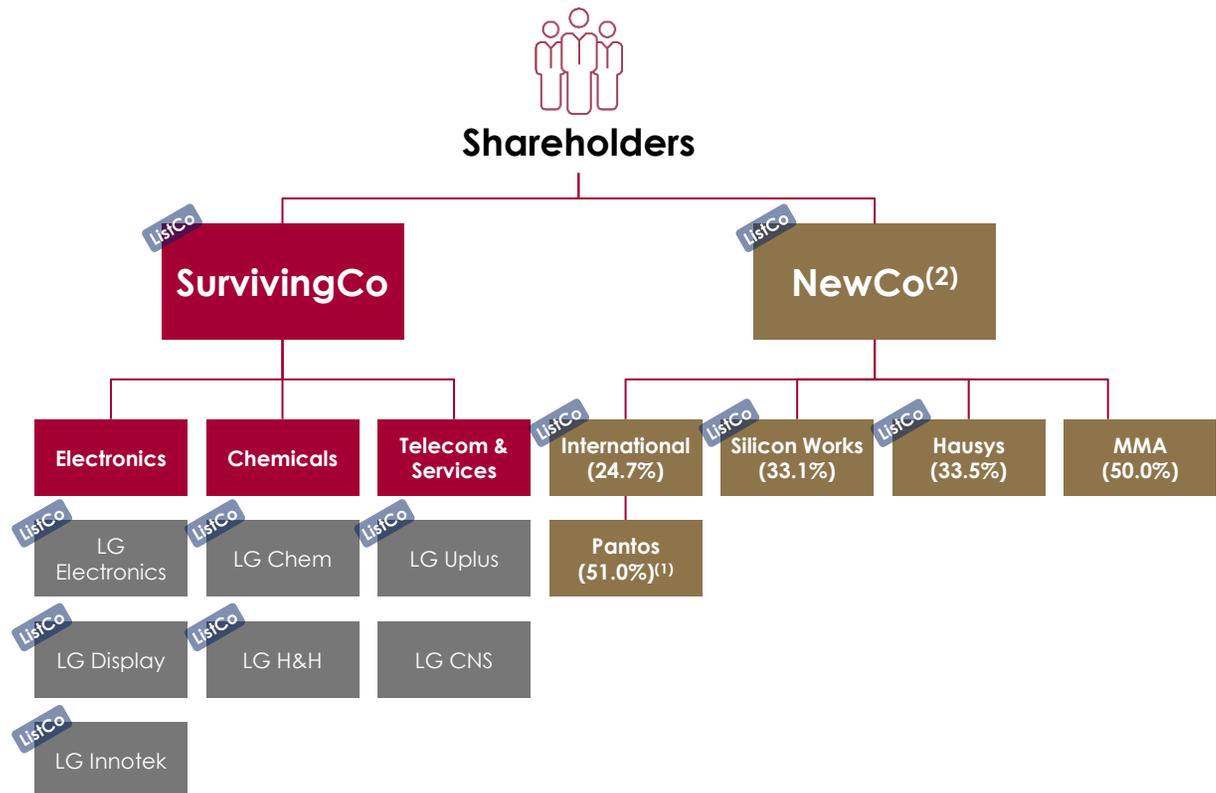
## Before Spin-off

Shareholdings based on common stocks



## After Spin-off

Shareholdings based on common stocks



Notes: Shareholding illustration of key subsidiaries and affiliates

1. Shares owned by International

2. Tentative

## 2. Expected Impacts of the Spin-off (Cont'd)



1

### Portfolio Optimization Based on Business Characteristics



2

### Opportunity to Unlock the Hidden Value



3

### Maintenance of Partnership



4

### NAV Discount Alleviation

- Independent management overseeing the spun-off subsidiaries and segregation of businesses will enhance management efficiency and lead to tailored strategies to maximize value potential

- By having the Newco to focus and specialize in their flagship businesses, we expect to obtain unattained value and reach full growth potential

- Spun-off entities can unlock new business initiatives under independent management<sup>(1)</sup>, while NewCo is continuing its partnership with LG

- We expect to alleviate the NAV discount issue as strategic initiatives continue and the spin-off aims to diversify investment risks and promote business-specific expertise.

Notes:  
1. Independent from LG Corp

# 1 Portfolio Optimization Based on Business Characteristics (Details)

Businesses with similar characteristics will be managed independently to enhance management efficiency and implement tailored strategies to maximize the potential value.

**LG Corp.**



**Electronics**



**Chemicals**



**Telecom & Services**

- **Capital intensive** businesses requiring stable long-term investments and resource allocation
- **Global top-tier** businesses with proven competitiveness and brand awareness
- **Stable cash flow** generation and huge upside potential from **new technology** development (AI, Big Data, 5G, Electric Vehicle)

**NewCo**

**Hausys**  
No. 1 construction materials in Korea



**International**  
47 global networks in 21 countries

**Silicon Works**  
Global top 3 display driver IC supplier

**Pantos**  
Largest Freight Forwarder in Korea, Global Top 6 in International Ocean Freight

**MMA**  
Addresses 95% of PMMA demand for domestic car taillight

- Relatively smaller scale businesses with ample growth potential to be unlocked
- Large room for business diversification and global expansion
- Feasible to adapt to change of market by implementation of streamlined decision making process under independent management<sup>(1)</sup>

Notes:  
1. Independent from LG Corp

## 2 Opportunity to Unlock the Hidden Value (Details)

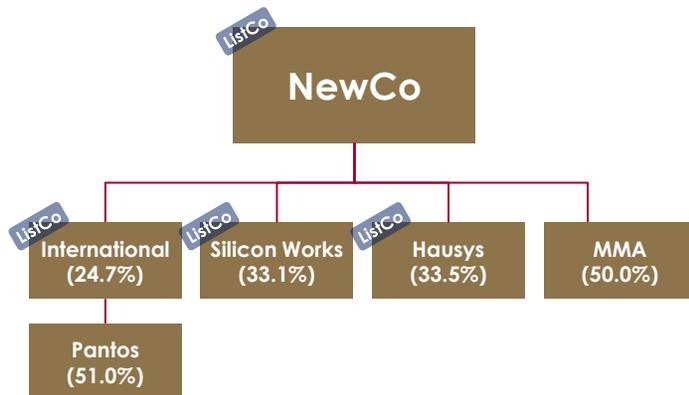
With Newco's board of directors specialized in their flagship businesses, we expect to attain inherent value and reach full growth potential going forward.

### NewCo Holding Structure

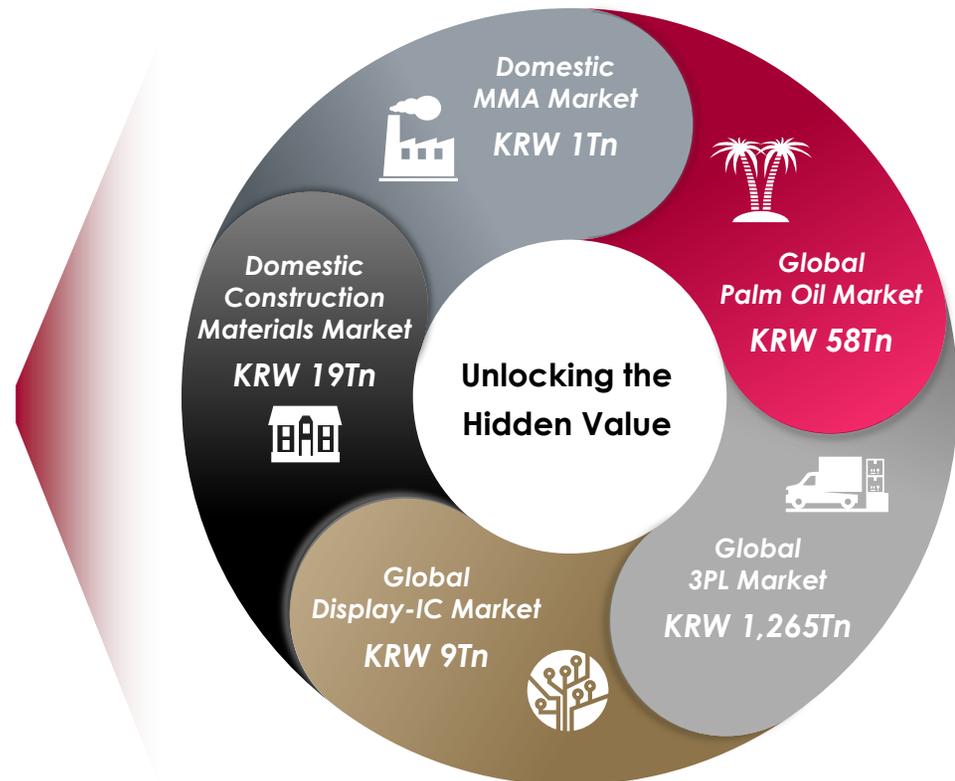
#### [ Board of Directors ]

<b>Koo, Bon Joon</b>	<b>CEO</b>	Former CEO, LG Semiconductor Former CEO, LG-Philips LCD Former CEO, LG Electronics Former Vice Chairman, LG Corp.
<b>Song, Chi Ho</b>	<b>COO</b>	Former CEO, LG International
<b>Park, Jang Soo</b>	<b>CFO</b>	Former Finance Manager, LG Chem Former Finance VP, LG Corp.

\* The BOD consists of total 7 directors(3 inside and 4 outside).



### Huge Potential Market<sup>(1)</sup> for NewCo to Expand its Businesses



Notes:

1. Forecasted market size for 2025 except for domestic MMA market, which is based on the current market. Converted from USD with foreign exchange rate of 1 USD = 1,114.6 KRW (As of January 29, 2021, Seoul Money Brokerage Services)

### 3 Maintenance of Partnership (Details)

Spun-off entities can unlock new business initiatives under independent management<sup>(1)</sup>, while NewCo will maintain its partnership with LG Corp.

#### LG Corp.

#### Business Needs

- Stable supply of quality raw materials and tailored services
- Business partner with deep understanding and advanced capabilities



**Merit-based continuation of business cooperation and relationship post spin-off**

#### NewCo

#### Business Needs

- Large captive volume to sustain foundational scale of business
- Global partner to develop new market inroads for expansion

Notes:  
1. Independent from LG Corp

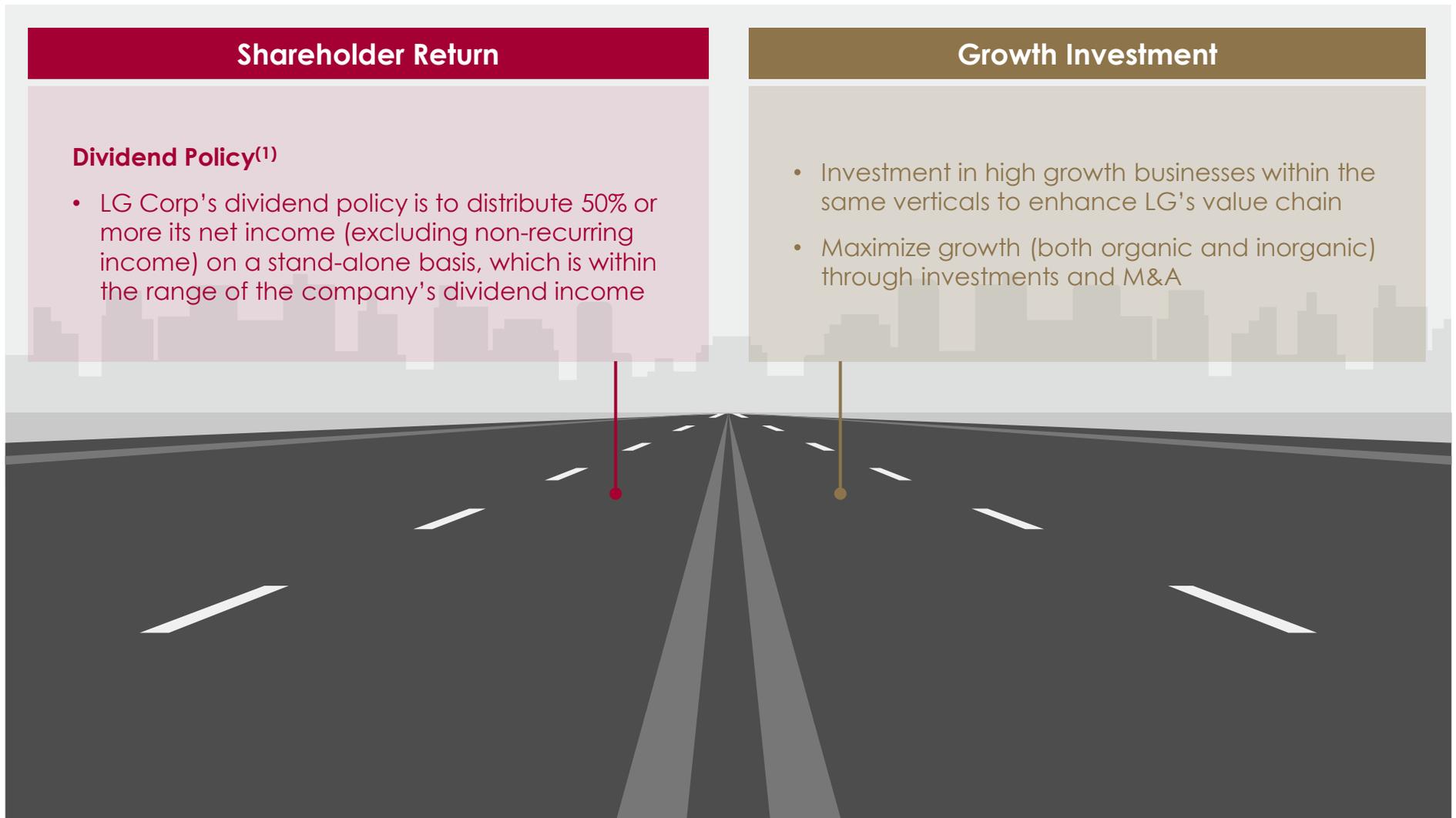


## 4 NAV Discount Alleviation (Details)

This spin-off aims to diversify investment risks and promote business-specific expertise by restructuring LG Corp.'s business portfolio, which will ultimately alleviate the Company's NAV discount issue and enhance the corporate value going forward.

#	Major NAV Discount Factors	Solution
<b><u>Common factors (holding companies)</u></b>		
(1)	Dependence on subsidiary dividend cash flow	<b>Subsidiary dividend gradually increasing</b>
(2)	Indirect holding of equity in blue-chip subsidiaries	<b>More shareholder options through spin-off</b>
(3)	Risk of pursuing new business	<b>Diversify investment risk through spin-off</b>
<b><u>Individual factors (LG)</u></b>		
(4)	Less investment attractiveness due to excessive business diversification	<b>"Select &amp; Focus" strategy through spin-off</b>
(5)	Electronics and telco business lack clear market superiority	<b>Reinforce business-specific expertise and competitiveness through spin-off</b>
(6)	Absence of cash allocation plan announcement	<b>New growth engine stories and shareholder value enhancement after spin-off</b>

### 3. LG Corp.'s Capital Allocation Plan Following the Spin-off

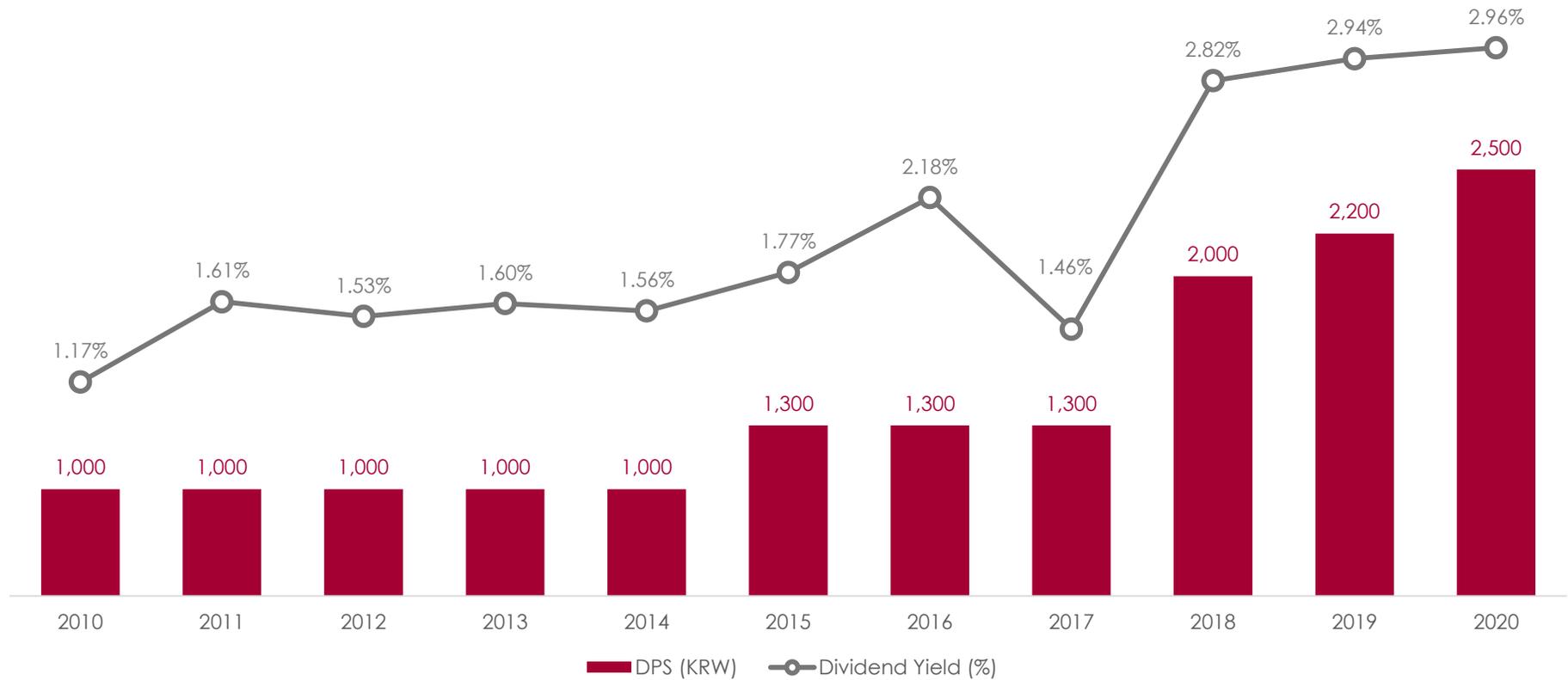


Notes:  
1. As announced by LG Corp in a public disclosure on February 13, 2020

# 1 Shareholder Return (Details)

Compelling shareholder return in the form of dividends has been LG Corp's priority and will continue to be the primary focus.

LG Corp.'s Historical DPS and Dividend Yield Trend<sup>(1)</sup>

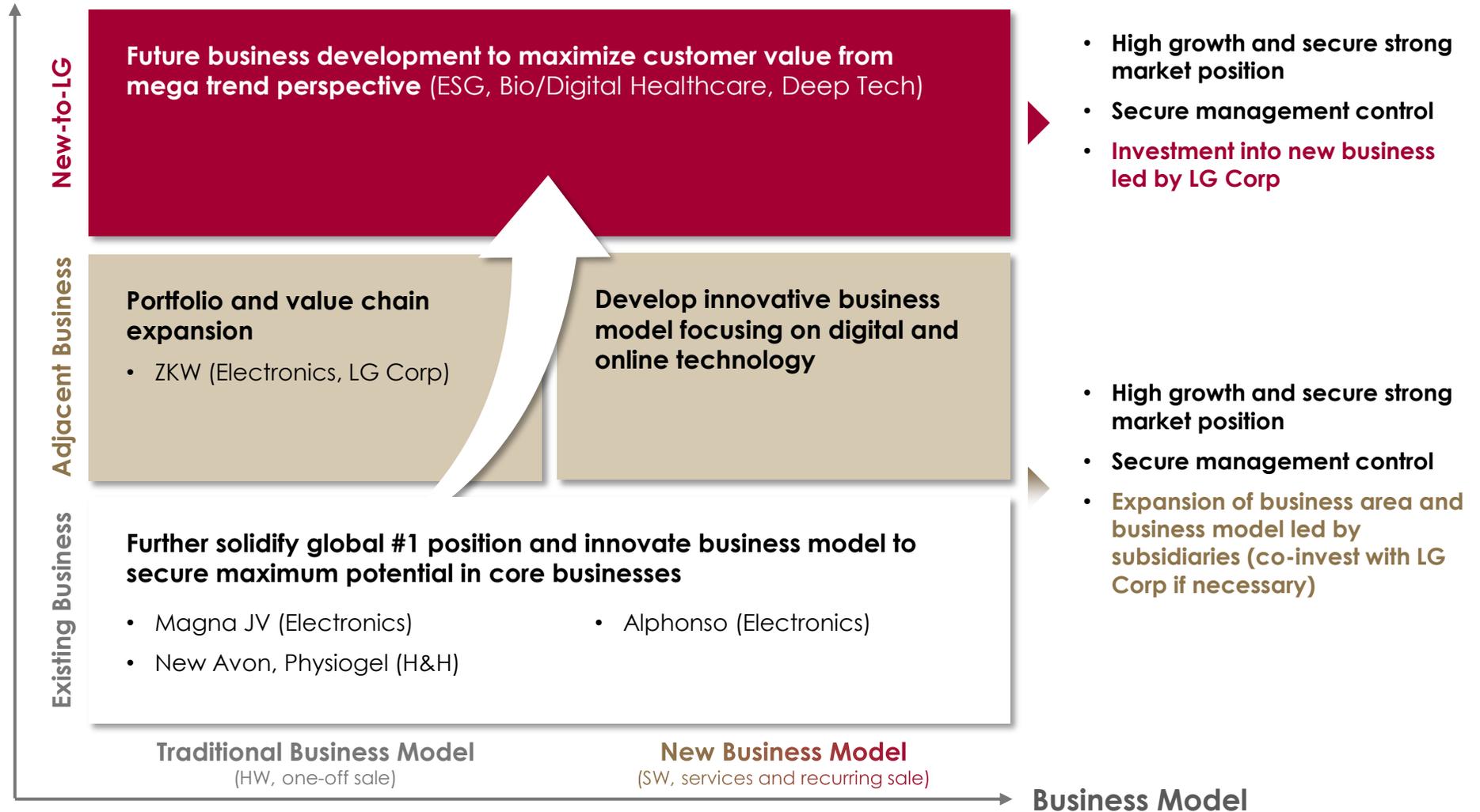


Notes:  
1. Dividend per share and dividend yield for common shares

## 2 Growth Investment (Details)

LG Corp. and its subsidiaries will enhance corporate value and accelerate business growth through implementing growth investment strategies.

### Business Area

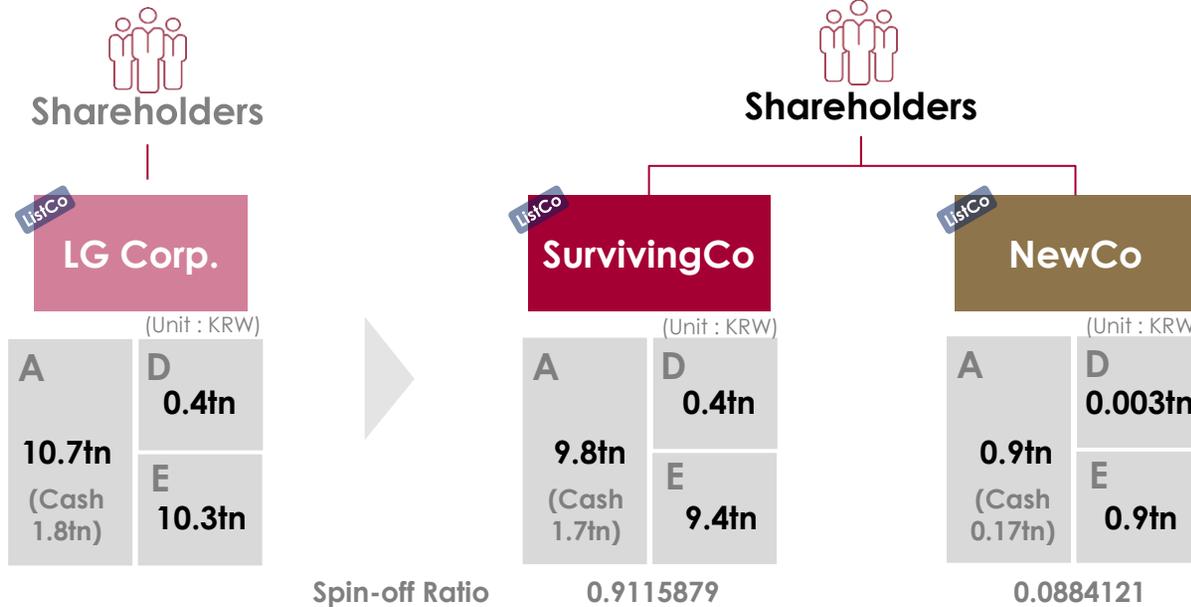


- High growth and secure strong market position
- Secure management control
- Investment into new business led by LG Corp

- High growth and secure strong market position
- Secure management control
- Expansion of business area and business model led by subsidiaries (co-invest with LG Corp if necessary)

# Appendix #1. Spin-off Ratio / Revenue Breakdown

## 1. Spin-off Ratio



\* Spin-off Ratio was set based on 3Q 20 Net Asset Value

- Current shareholders of LG Corp. will receive their proportional ownership in the spun-off entity (NewCo), which will be publicly listed. As such, shareholders will be presented with two publicly listed companies with different profiles.
- Through the spin-off, portfolios are to be streamlined and to be independently managed by each holdco to uplift corporate value.

## 2. Revenue Breakdown

LG Corp. (Prior to Spin-off) (Unit : KRW bn)

	*2020	2019	2018	2017
Revenue	1,060.5	874.7	757.2	714.8
Dividend Income	649.6	476.2	368.2	319.7
Royalty revenue	280.6	270.6	270.1	278.5
Rental revenue	130.3	127.9	118.9	116.7

LG NewCo (Portion of NewCo in LG Corp before Spin-off) (Unit : KRW bn)

	2020	%	2019	%	2018	%	2017	%
Revenue	44.3	4%	89.4	10%	73.0	10%	41.4	6%
Dividend Income	35.1	5%	79.6	17%	62.6	17%	31.3	10%
Royalty revenue	9.2	3%	9.8	4%	10.4	4%	10.1	4%

**The subsidiaries being spun-off comprise only 4% of LG Corp's revenue in 2020.**

(5% of dividend income and 3% of royalty income)

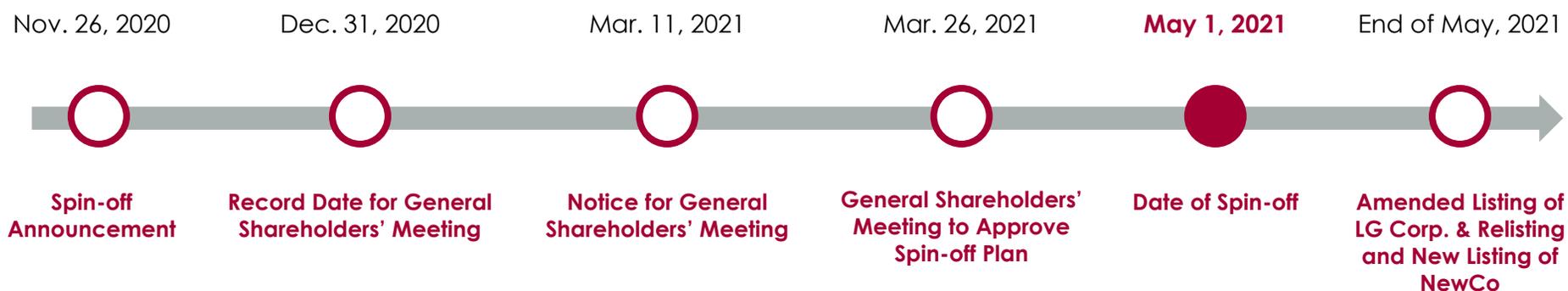
\* Recent 4Y Average

- Revenue : 7% (Dividend :12%, Royalty : 4%)

\* Discontinued Financials have been simply rearranged to help investors understand revenue structure before Spin-off  
Actual 2020 LG Corp Separate P/L Financials reflect discontinued operations from spin off, therefore figures stated above will differ from audit report

## Appendix #2: Spin-off Timeline and Key Terms

### Spin-off Timeline



### Key Terms

Entity	Company	Major Subsidiaries	Spin-Off Ratio	Capital	Face Value	Total No. of Shares
<b>SurvivingCo</b>	LG Corp.	<ul style="list-style-type: none"> <li>• LG Electronics</li> <li>• LG Chem</li> <li>• LG Uplus</li> </ul>	0.9115879	KRW 801.6 BN	KRW 5,000	Common: 157,300,993 Preferred: 3,021,620
<b>NewCo</b>	LG NewCo <sup>(1)</sup>	<ul style="list-style-type: none"> <li>• International</li> <li>• Pantos</li> <li>• Silicon Works</li> <li>• Hausys</li> <li>• MMA</li> </ul>	0.0884121	KRW 77.8 BN	KRW 1,000	Common: 76,280,690 Preferred: 1,465,285

## Appendix #3: Efficient Restructuring through Horizontal Spin-off

In order to reorganize the portfolio, multiple transaction structures were reviewed from various angles (strategy, finance, legal, tax, certainty of deal closing, and so on). In order to achieve the objective of restructuring our business portfolio and considering the expected impacts, horizontal spin-off has been determined as the most appropriate option.

### Third Party Sale

- Strategic relationships have been formed with major subsidiaries or business partners in the form of value chains or joint ventures, and the dependence on intercompany transactions is high, making it difficult to obtain a fair valuation in a third party sale.
- Opposition of executives and employees due to change in control and decrease in employment stability, possibly result in decreased productivity and corporate value.
- Possibility of increased external outflows compared to other options exists.

### Vertical Spin-off

- As the newly established holding company becomes a wholly-owned subsidiary of the surviving holding company, it is difficult to secure independent management operation and expeditious decision-making process due to the equity relationship.
- The financial risks of a new holding company and an existing holding company are still shared.
- Pantos will be converted from a grandchild company to a great-grandchild company, resulting in additional burdens and costs for LG International, e.g., having to secure 100% of the stake or sell the entire stake in accordance with the Monopoly Regulation And Fair Trade Act .

### Horizontal Spin-off

- It is easy to establish an independent management system, so it is suitable for advancing business portfolio through expert management.
- Independent management operation and decision-making efficiency and expeditiousness can be secured
- After the spin-off, both the surviving company and the newly established company's stocks are to be listed, expanding shareholders' options.
- Less discount effect compared to vertical spin-off.
- In terms of strategic relationship and growth potential, it is more advantageous to spin off the company and maintain the relationship through internal holdings rather than 3<sup>rd</sup> party sale.

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