

Proposals for Hyundai Elevator

**The Disciplined Long-Term Investor
in Climate and Corporate Governance**

KCGI Asset Management

2023.08.23

Proposal of KCGI Asset Management

- Best path forward for Hyundai Elevator

We strongly believe with proper oversight and margin improvement plans, Hyundai Elevator has potential to become a successful global elevator business, delivering sustainable value creation.

Key steps to the right direction include:

- Remove Ms. Hyun from the board to separate ownership and management for more transparent and independent governance
- Appoint external directors as chair of the board for each committee – Compensation Committee and Nominating Committee - and establish a separate committee for recommending CEO of each subsidiary
- Introduce mid to long-term earnings improvement roadmap
- Appoint an independent ‘Auditor’
- Form a new performance evaluation system to align the interests of shareholders and the management, and employees

We look forward to discussing our recommendations with the Board, Schindler Holdings and major shareholders.

If constructive feedback is not received, KCGI Asset Management will undertake further stewardship activities.



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Korean Elevator Industry

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The Lost Two Decades of Hyundai Elevator

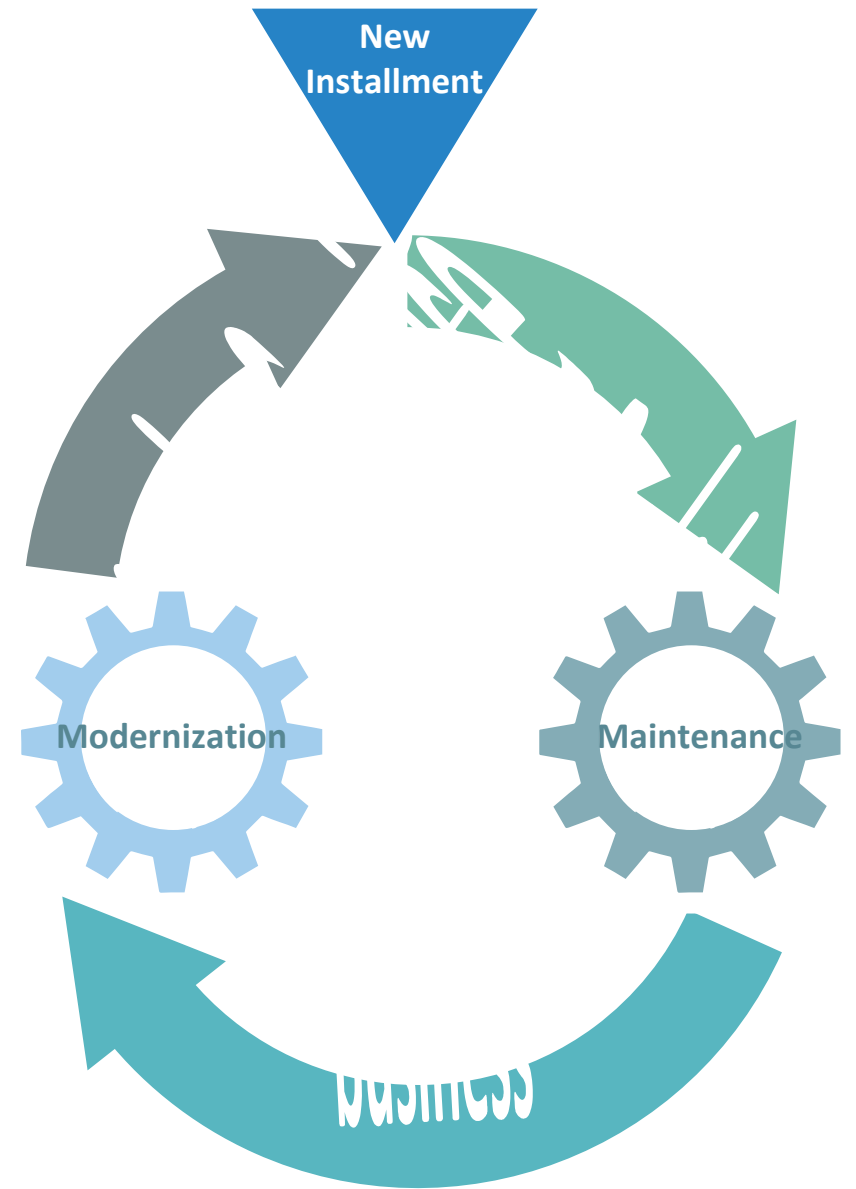
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Open Questions – To Board of Directors of Hyundai Elevator

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Proposals of KCGI Asset Management

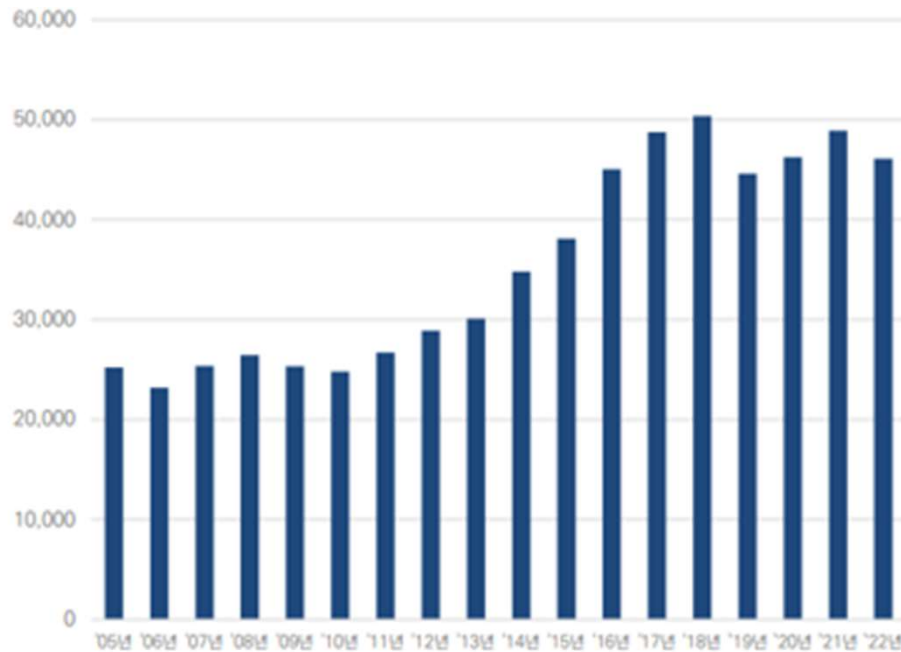
Korean Elevator Industry



Korean elevator industry is very attractive...

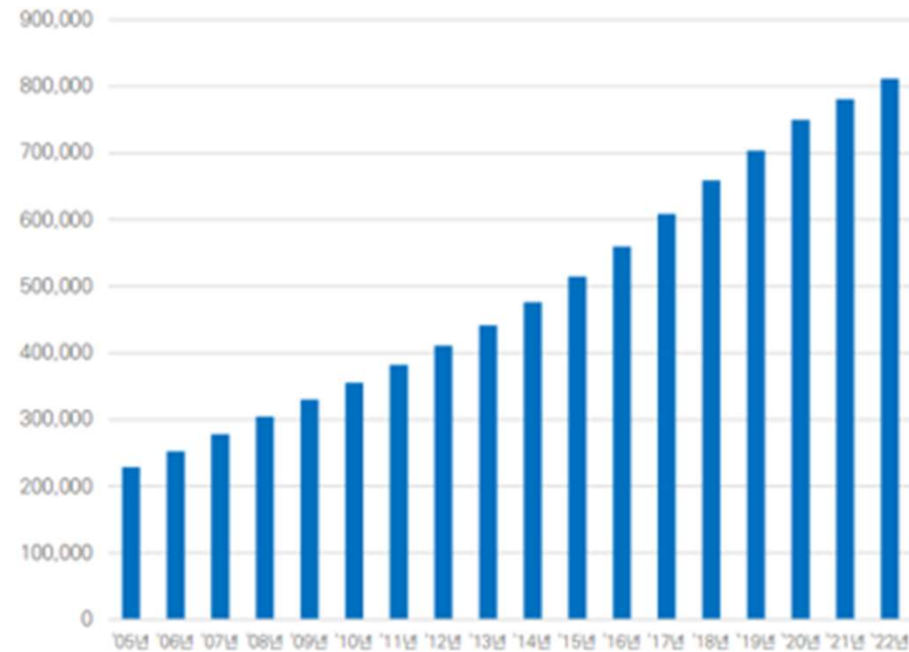
- World's 3rd largest in annual installation, and 7th largest in active number of elevators
- More than 810k active elevators, and over 40k of annual new installations

Newly built and remodeling installment



Total of 46k installment in 2022 (33k newly built, 13k replacement)
 Approximately KRW 3tr market (dollar value)

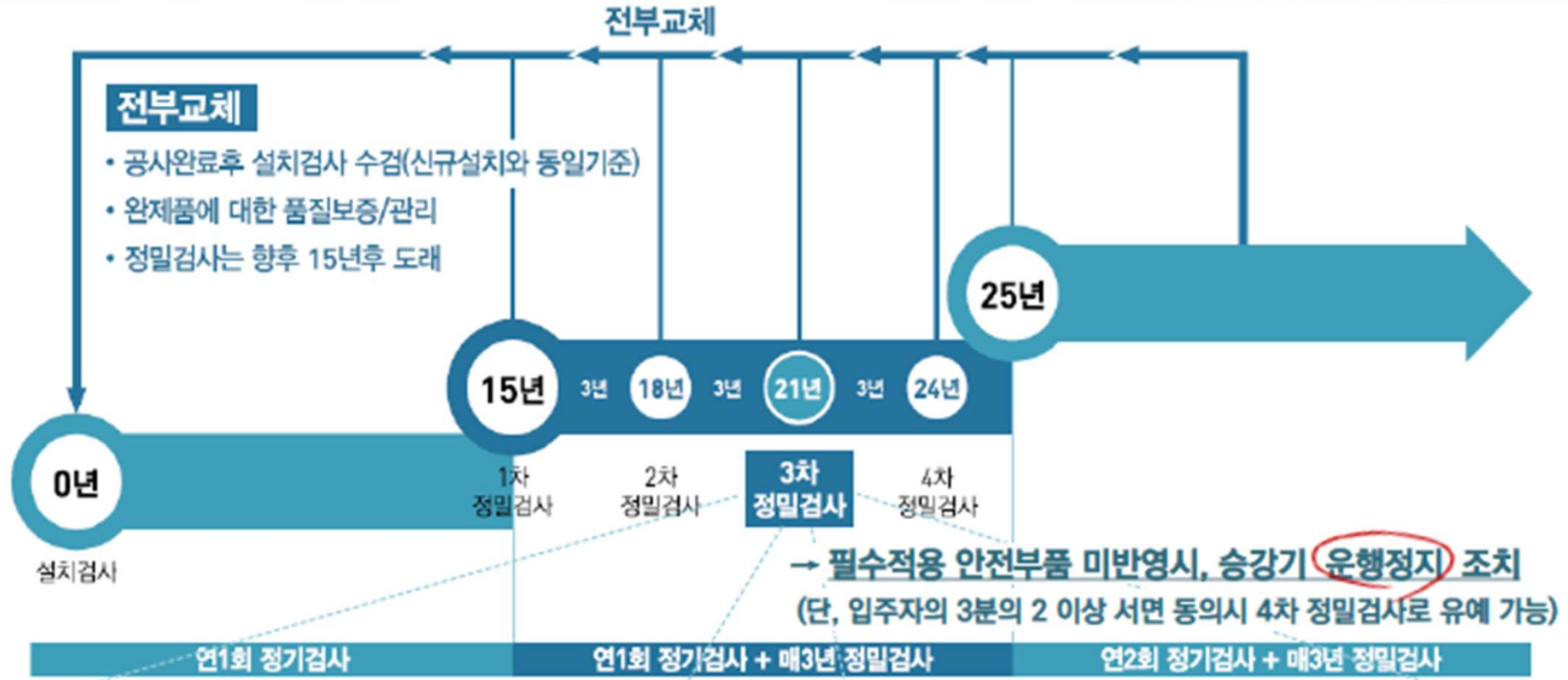
After Service market



Addressable market of A/S : more than 810k elevators in service

...and riding on further structural tailwinds

- Replacement demand to enjoy stronger growth from 'Elevator Safety Act' (Mar 2019)
- 246,409 elevators have over 15 years of service age (30.4% of total)



• New Growth Driver : Reconstruction & Remodeling of aged Apartments

	Location	Date of Completion	No. of Households	# of Elevators	# of Households per elevator
Eun Ma Apt.	Gangnam	1979	4,425	42	105
Banpo Xi Apt.	Seocho	2009	3,410	81	42
DH Firstier Apt.	Gangnam	2023	6,702	247	27

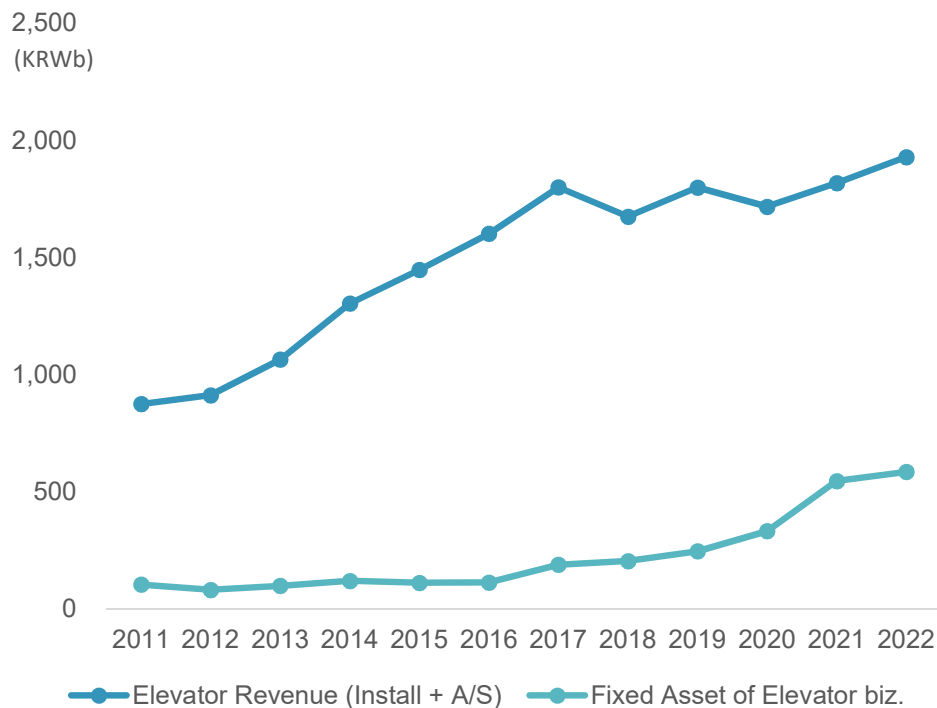
Source : Hyundai Elevator IR presentation, Ministry of Interior and Safety

Elevator business is highly profitable

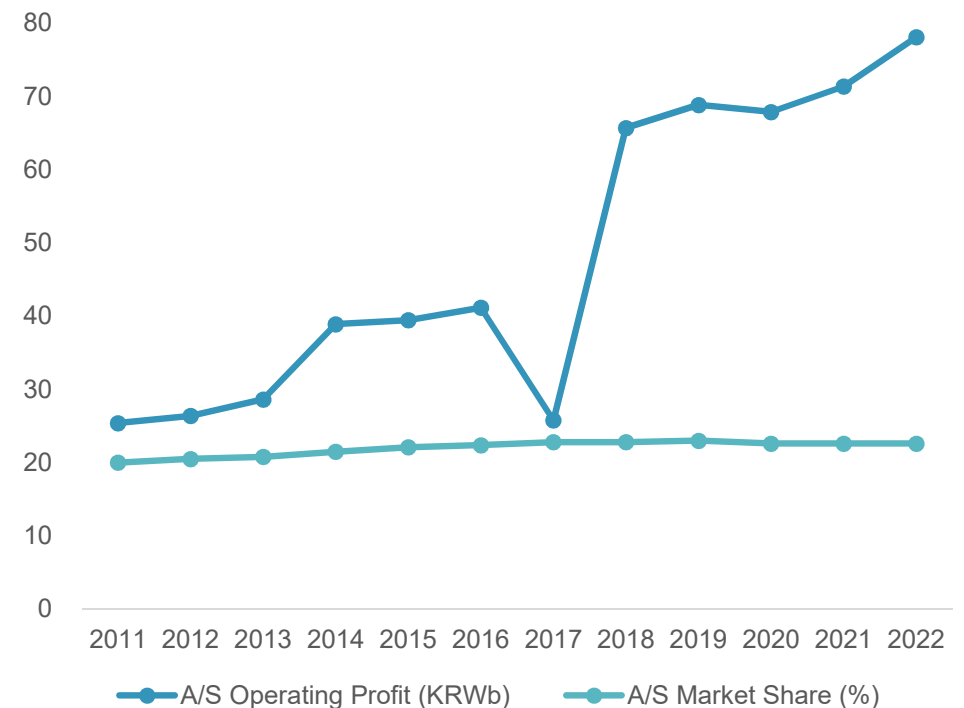
- Strong cash flow generation from high asset turnover and minimal capex
- Elevator A/S business generates more than 20% in OPM

- Superior Cash flow generation from high Asset Turnover and minimal CAPEX requirement
- Recurring revenue generation from After Service business
- Operating Profit Margin of HDE's A/S division is over 20%

High Asset Turnover

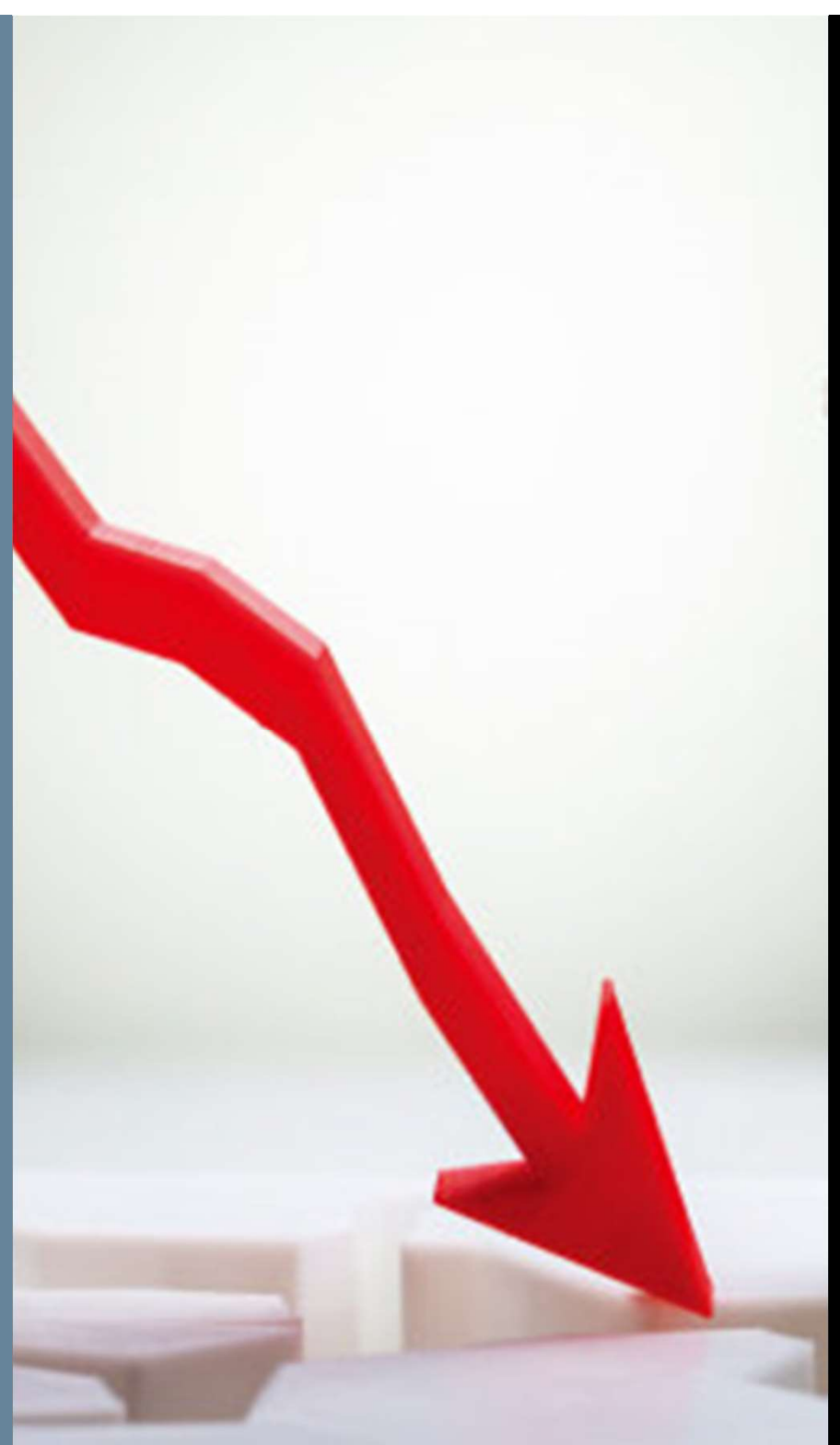


Profitability & Stability of A/S Business



Source : Hyundai Elevator IR presentation, DART

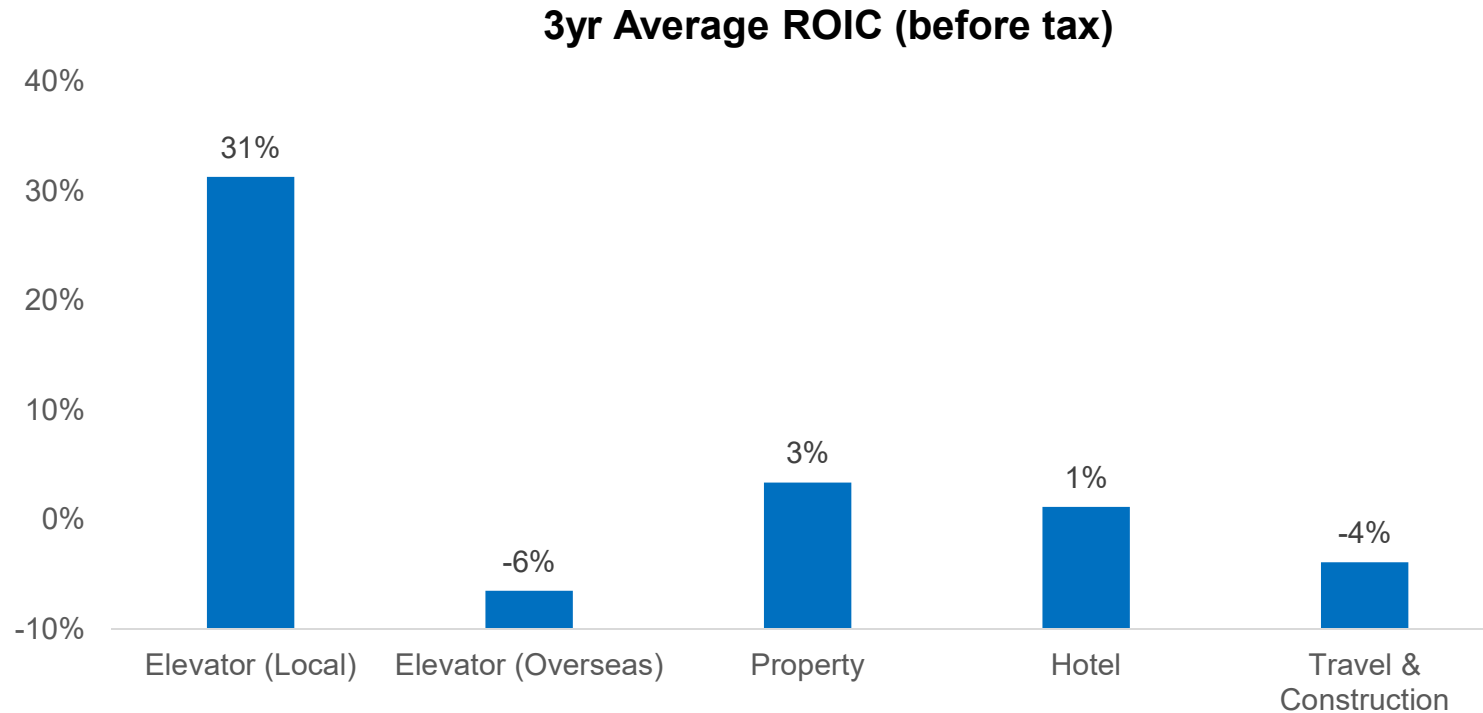
*The lost Two Decades of
Hyundai Elevator*



Return On Invested Capital (ROIC) dilution from non-core business

▪ ROIC will only go up once the unprofitable non-core divisions are addressed

- ROIC of domestic elevator division is diluted by less profitable non-core divisions
- Despite surging steel and shipping cost, local elevator division profitability is outstanding
- Overseas business is loss making due to low A/S revenue despite high installations

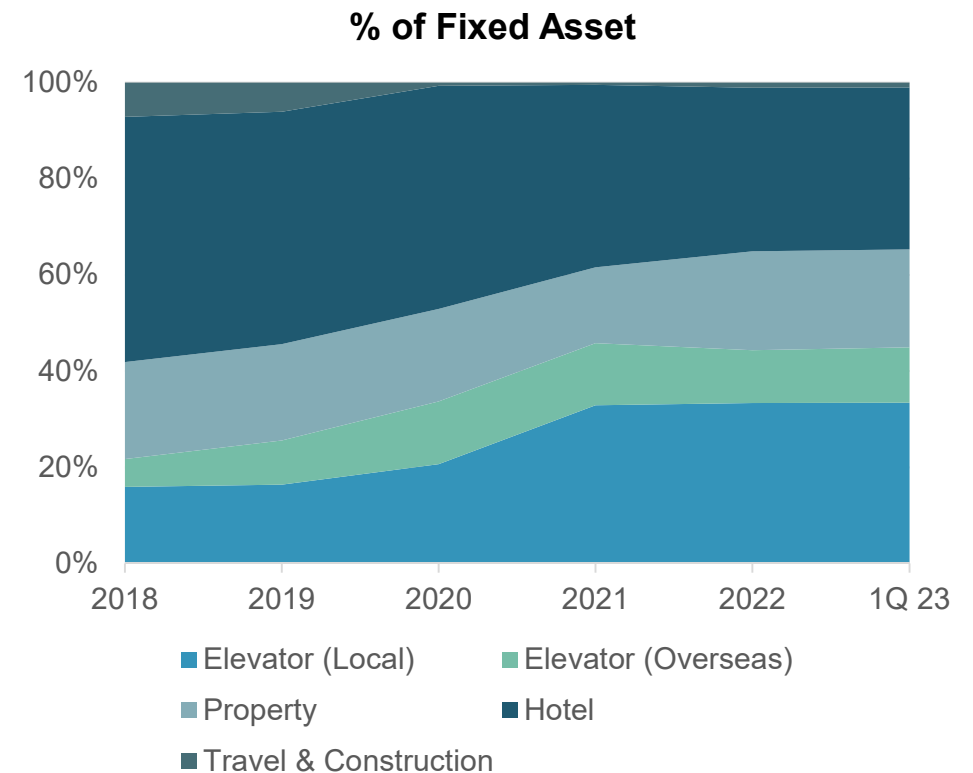
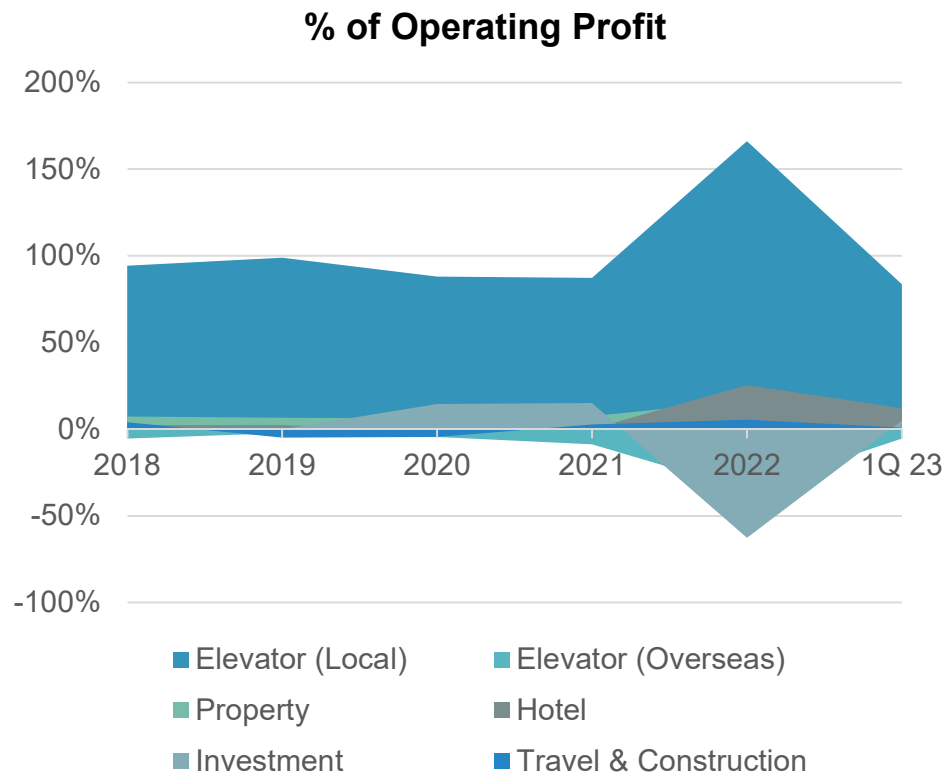


Source : Hyundai Elevator IR presentation, DART

Sub-optimal capital allocation dragging down overall returns

- Higher capital allocation into lower profitability divisions

- Hyundai Elevator's operating profit mostly comes from domestic Elevator Division
- But fixed assets are inefficiently allocated to less profitable divisions



Source : Hyundai Elevator IR presentation, DART

Hyundai Elevator is significantly underperforming peers in profitability...

- Substantially Lower ROIC, and Operating Profit Margin

- Hyundai Elevator profitability is substantially lower than global peers
- Peer analysis shows Elevator industry's profitability have not been impacted by construction cycle or commodity price volatility

		2018	2019	2020	2021	2022
Kone	ROIC	25%	26%	24%	26%	22%
	OPM	13.5%	11.5%	12%	12%	12.5%
Schindler Holding	ROIC	24%	19%	14%	16%	11%
	OPM	11.7%	11.2%	9.7%	10.4%	8%
OTIS	ROIC	46%	47%	35%	35%	37%
	OPM	14%	14%	13%	15%	15%
Hyundai Elevator	ROIC	1%	5%	7%	5%	2%
	OPM	7.6%	7.3%	8.2%	6.5%	2%

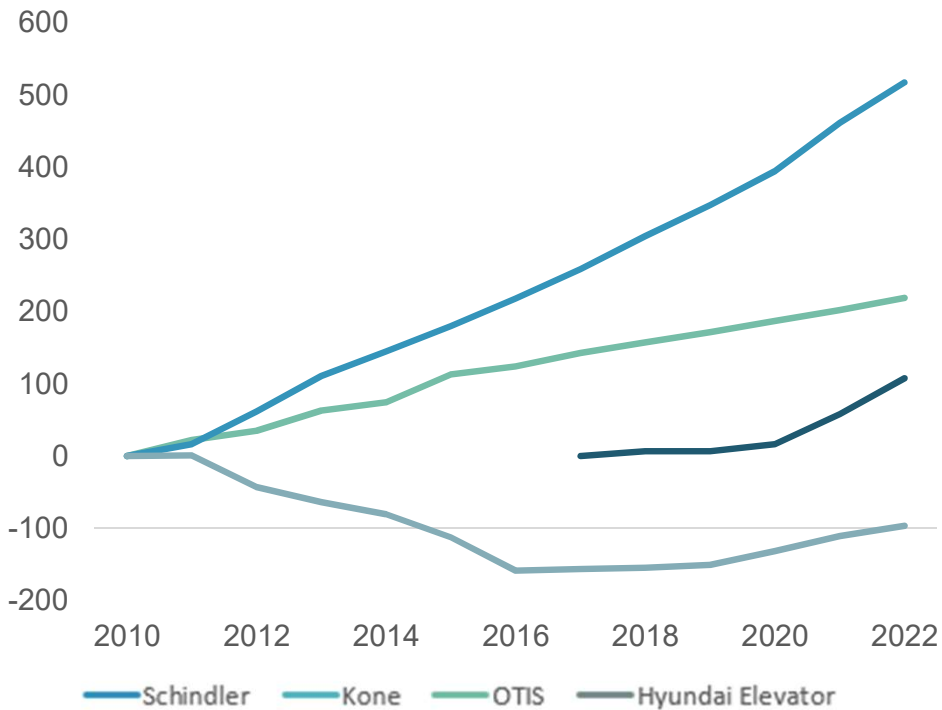
Source : Bloomberg

...and in shareholder returns

- Poor shareholder returns leading to poor share price performance

- Poor shareholder returns led poor share price performance
- HDE's total number of shares has increased 265% in past 12 years

Accumulative net shareholder return



Stock Price Performance



Shareholder return (cash dividend + buyback) – Dollar value of new share issuance
Source : Bloomberg

Open Questions

*To the Board of Directors
of Hyundai Elevator*



1) BOD Restructuring

▪ We urge to reassess Ms. Hyun Jeong Eun role as an internal director and the Chair of the Board

- Korean Supreme Court ordered Hyun Jeong Eun to compensate KRW 170bn to Hyundai Elevator
- Supreme Court has acknowledged her violation of ‘conflict of interest’ & ‘duty of care’
- She receives excessive compensation from HD Elevator & affiliates (more than KRW 12b in 3 years)
- Compensation has not been linked to business performance
- Ms. Hyun also serves as a chairperson and inside director of Hyundai Movex and Hyundai Asan
- Ms. Hyun failed to attend more than half of Board meetings of Hyundai Elevator in recent 3 years.

Total Compensation (KRWm) to Ms. Hyun	2018	2019	2020	2021	2022	1H 23
Hyundai Elevator	2,708	2,647	3,020	3,143	2,981	1,632
Hyundai Movex					900	831
Hyundai Asan			795	900	900	
Total	2,708	2,647	3,815	4,043	4,781	2,463

Name	Position	Term	Attendance (%)			Approval (%)				
			3yr average	2020	2021	2022	3yr average	2020	2021	2022
Hyun Jeong Eun	Chairperson	Mar 2004 ~	47%	33%	58%	50%	100%	100%	100%	100%

She failed to attend 5 board meetings out of 9 in 2023 YTD

Source : Hyundai Elevator Sustainability Report

1) BOD Restructuring

- Need to enhance the independence and transparency of the Board

- Concerns on conflict of interest, remuneration, and duty of care
- These are disqualification factors according to the guidelines of proxy voting principle of NPS

<중점관리사안별 대상기업 선정 기준>

구분	세부내역
①기업의 배당정책 수립	①배당관련 반대 의결권 행사기업, ②의결권행사 대상기업 중 배당 성향 하위 기업, ③보유비중 상위 기업으로, 합리적인 배당정책을 수립-공개하고 있지 않거나, 그에 따라 배당하지 않는 기업을 선정 * 당기순손실(결손 누적 포함), 배당가능이익이 없는 기업은 제외 합리적인 배당정책 여부는 투명성, 구체성 등을 기반으로 판단 * 배당정책의 수립 및 공개여부, 기업 내-외부 요인을 감안한 배당결정, 배당정책의 준수여부 등
②임원보수한도의 적정성	이사보수한도가 경영성과와 연계되지 않거나 실지금액 대비 과도한 기업으로서, 최근 주주총회에서 이사보수한도 승인의 건에 반대한 기업 중, 이사보수한도 대비 실지금액 비율을 고려하여 선정
③법령상 위반 우려로 기업가치 훼손 내지 주주권익 침해 사안	국가기관의 조사 등 객관적 사실(1심판결, 검찰기소 등 국가기관의 1차 판단)에 근거하여 ①횡령, ②배임, ③부당지원행위, ④경영진의 사익편취에 해당할 우려로 인해 기업 가치를 훼손하거나 주주권익을 침해할 수 있는 기업을 선정

29. 이사의 선임

① 객관적 사실에 근거하여 아래의 경우에는 이사 후보에 대해서 반대할 수 있다.

- 법령상 이사로서의 결격 사유가 있는 자
- 과도한 겸임으로 충실한 의무수행이 어려운 자
- 기업가치의 훼손 내지 주주 권익의 침해의 이력이 있는 자

② 이사 후보의 수가 선임예정 이사의 수를 초과하는 경우 장기적으로 주주가치 증대에 더 적합한 후보에 대해 찬성한다.

We call on Hyundai Elevator to consider and announce the reform measures to enhance the 'oversight and control function' of the Board of Directors.

2) Establish better capital allocation policy

- Irrational secondary offerings and cash injection to subsidiaries

- Despite two share cancellations, HDE's total number of shares increased by 265% since 2011.
- Most of the KRW 996bn cash raised from new share issuances was used for capital injection into affiliates.
- Specific plans are required to improve lower ROE vs global peers.

Date		+/- of outstanding shares (%)	Change of Paid-in Capital (KRWb)
Feb 2011	Rights Issue	+ 50.5%	291
Dec 2012	Rights Issue	+ 12.1%	83
Jun 2013	Rights Issue	+ 13.3%	97
Mar 2014	Rights Issue	+ 44.4%	180
Jun 2015	Rights Issue	+ 25.5%	278
Nov 2015	CB Issue	+ 17.1%	205
Jun 2020	Treasury Cancelation	- 6%	-88
May 2023	Treasury Cancelation	- 4.2%	-50
Total		+265%	996

Source : DART

2) Establish better capital allocation policy

- Mid to long term shareholder return policy

- Skeptical feedback on recent cancellations due to interest burden of major shareholder
- Deal between major shareholder and H&Q partners is also reinforcing the suspicions
- Total outstanding shares need to be normalized down to 2011 level
- Need specific plans and timelines to streamline non-core business

Name	Business Purpose	Location	Acquisition Date	Acquisition Cost (KRW b)	Book Value (KRW b)	Estimated Value (KRW b)
Banyan Tree Hotel	Hotel	Jung Gu	Nov 2015	339.7	291.9	510.1
Company building	Rent	Yeonji Dong	Nov 2017	256.6	247.1	365
Bloomvista	Hotel	Yang Pyeong Province	May 2016	166.7	139.5	165
Yongsan Najin Arcade	Rent	Yongsan	Feb 2022	111.8	111.5	113.1
Company building	Rent	Jong Ro Gu	Oct 998	43.2	12.1	33.4

Source : Hyundai Elevator IR presentation

We request Hyundai Elevator to announce 1) specific measures to improve the financial productivity (ROE, ROIC), 2) sustainable shareholder return policy

3) Doubts on Hyundai Asan sustainability

- There is a strong need to review Hyundai Elevator's subsidiaries

- Hyundai Asan is designated holder of '7 business rights' in North Korea
- Legacy of Hyundai Group, and huge potential on North Korean economic reform
- No doubt that domestic entrepreneur should control Hyundai Asan
- Hyundai Elevator acquired and injected total KRW 138.9bn into Hyundai Asan since 2015
- Ms. Hyun rejected her rights of offering in May 2023
- Ms. Hyun's annual compensation from Hyundai Asan was KRW 900mn in 2023, equivalent to 55% of Asan's Operating Profit

Date	Type	Capital paid by HD Elevator(KRWb)	Ownership (%)	note
Nov 2015	Acquiring	35.8	33.8%	* Taking over from HMM
Jan 2016	Acquiring	37.4	67.6%	* Taking over from HMM
Mar 2019	Rights Offering	35.6	73.9%	
May 2023	Rights Offering	30.1	82%	* MS. Hyun did not participate
Total		138.9		

Source : DART

KCGI AM requests both the BOD of Hyundai Elevators and Ms. Hyun Jeong Eun to review the sustainability of Hyundai Asan operations

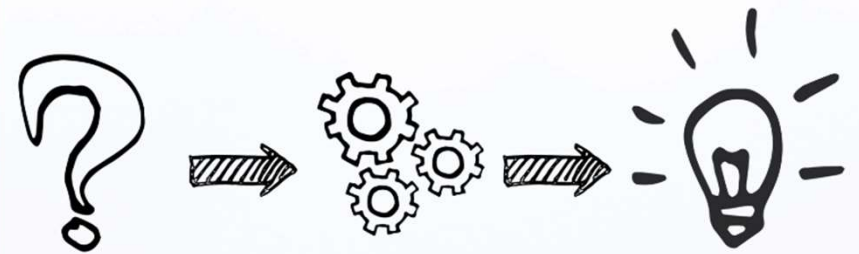
4) Need to review mid to long term business strategy

▪ KCGI Asset management encourages Hyundai Elevator to review the overseas and non-core business operations

- Reconsider the strategy of loss-making overseas business
- Prolonged losses from overseas business negatively impacts local elevator business
- Management needs to review why overseas A/S revenue is lacklustre despite strong track records in new installation
- Detailed plans and timeline to streamline the non-core business are required

We request the strategic direction and timeline to reform the overseas business and other non-core business

*Proposals of
KCGI Asset Management*



Proposal of KCGI Asset Management

- Best path forward for Hyundai Elevator

We strongly believe with proper oversight and margin improvement plans, Hyundai Elevator has potential to become a successful global elevator business, delivering sustainable value creation.

Key steps to the right direction include:

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Proposals of KCGI Asset Management

- Equity Team, KCGI Asset Management
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We have strong conviction in significant value creation opportunity in Hyundai Elevator. We believe with proper oversight and margin improvement plan, Hyundai Elevator will become a better company for its customers, employees and shareholders.

EOD