

Portfolio Company Background:

Sector	Industry	Business Portfolio
Cosmetics	Cosmetics ODM	Full service and packaging ODM service for color products

Deal structure:

Deal Size	\$12.0 million
BRV Lotus Fund II Commitment	\$12.0 million
Co-Investors	
Target Equity Position	4.35%
Investment Form	Common Shares
Investment Strategy	Growth Equity
Deal Closing Date	May 15, 2015
Sourcing Background	The founder/CEO invited BRV to be his exclusive strategic equity partner to develop and execute growth engines
Deal Team	Scott Ryu, Key Suh
Board Seat	N/A

Industry overview:

Key Players	Cosmax, Korea Kolmar, Cosmecca Korea, Clio, Yunwoo
Market Size	USD \$482.6 billion (2020) CAGR (16-2020) of 6.7%
Growth Potential	<ul style="list-style-type: none"> - With increasing demand on more personalized and targeted cosmetic products, clients have limited resources to develop and launch new products in house, including the management of packaging and formula. Thus, partnerships with competitive ODM companies that can provide full-scale packaging design, product concept development and full-service formula development are becoming more promising
Market Opportunities	<ul style="list-style-type: none"> - Global companies have been increasingly outsourcing to leading ODM/OEM companies for development and manufacturing of their cosmetics in order to focus on utilizing their branding, marketing, and distribution. - There is a growing demand for Korea ODM companies for their capability of development speed and skill in cosmetics sector where the innovation of the idea itself and launch timing are becoming two additional aspects that contribute substantially to the success of a cosmetic products

Investment Thesis:

Solid Baseline	<ul style="list-style-type: none"> - Due to its innovative development capabilities and strong track record, CTK has become one of the top suppliers to global brand companies including L'Oreal, Estee Lauder, Sephora, etc. → The company increased sales 119.3% to KRW 133.8 bn in 2016, which is up from about KRW 6.9 bn in 2011. - Company has a slim business structure that can handle both packaging and formulas development unlike other cosmetics ODM companies who are specialized either in formula or packaging with "heavy" manufacturing facilities -> no manufacturing capacity limitation for the company and more advantageous in respect of product development than other lopsided ODM companies (either in formula or package)
Growth Initiatives	<ul style="list-style-type: none"> - Vertical expansion: CTK is in discussion for potential collaboration with other brands of existing customers; the company is expanding its sales network by participating actively in global cosmetics

	<p>fairs/exhibitions and is acquiring new customers by leveraging strong track records</p> <ul style="list-style-type: none"> - Horizontal expansion: In order to capture low-end brand customers, the company is building new customer channels in Asia to expand its line-up to mass/low-end by sourcing low-cost package in China / Taiwan – BRV led initiatives include introductions to the top 4 ecommerce platforms in China and US - Partnerships: launch new brands in US via collaboration with celebrity (for ex: Miranda Kerr lipsticks) and fashion brands - New growth initiatives by developing innovative package (detail is unavailable due to confidentiality)
Management Team	<ul style="list-style-type: none"> - Key executives track record: 20+ years of deep experience in consumer industry, mainly cosmetics. - CEO Ian Chung has 21 years of experience in cosmetic package/brand - CMO Sunny Choi has 23 years of experience in product development/marketing of cosmetics brands (Fila, La Prairie, Vidi Vici) - R&D head Jung Hun Jung has 17 years of experience in consumer industry, mainly packaging development (J&J, Unilever) - Purchase/QC head Jun Woo Hong has 20 years of experience working at Amorepacific, covering purchase, QC and SCM
BRV Value-Add	<ul style="list-style-type: none"> - Supporting Asia market (especially China) penetration through the collaboration with BRV-verified or backed Asian on/off-line distributors - Introducing potential collaboration partners for the development of innovative products and sales channels
Attractive Valuation	<ul style="list-style-type: none"> - Solid YoY growth backed by attractive entry valuation - Since 2014, the revenue and operating profit of CTK had grown at the CAGR of 79.6% and 165.1%, reaching 133.8 billion and 26.7 billion in 2016, respectively. - Entry equity valuation was KRW 310.0 billion - Entry PER multiple was 16.7x (even considering potential maximum IPO dilution 25%) with the 2016 expected NI of KRW 23.3 billion, which is fairly attractive compared to those of peers, whose average PER multiple was around 25x