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A Case study of Equity Carve-out In the Korean Distribution Industry: Focusing on the SSG.com

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Abstract

Purpose: Research on equity carve-outs is necessary because the market has realized that they lead to holding company discounts by double counting, which can only be observed in the Korean market. Considering the differences in the SSG.com equity carve-out compared to previous cases in terms of business strategy, this study contributes to the literature by examining the effects on shareholder value in the Korean distribution industry. **Research design, data, and methodology:** This study investigated literature, analyst reports, and news articles to examine the causes of holding company discounts and analyze the SSG.com equity carve-out. **Results:** The monopoly of holding companies' listing premiums is the main cause underlying holding company discounts from equity carve-outs. Protections for minority shareholder value are challenging owing to the complexity of the process of acquiring rights, the short exercise period, and additional costs. Therefore, the motivation for equity carve-outs should be to increase overall shareholder value. **Conclusion:** By analyzing the reasons for holding company discounts in the Korean distribution industry, this study provides recommendations for improving shareholder value. Moreover, it contributes to the maturation of the Korean capital market by promoting a discussion on the revision of equity carve-outs.

Keywords : Equity carve-out, Spin-off, E-commerce industry, E-commerce distribution, SSG.com, E-Mart

JEL Classification code: M48, M40, M10

1. Introduction

The price discount of the parent company through equity carve-out has been issued in the Korean stock market since 2021. In Korea, equity carve-out is a divestiture process whereby a specific business unit of a company is spun off vertically into a 100% subsidiary. It refers to separation under Commercial Act without intrinsic changes in the existing company. The motivation for equity carve-outs in Korea is financing via the subsidiary's initial public offering (IPO). The core difference between equity carve-outs in Korea and those in the United States (U.S.) is that in Korea, the majority of shares are disposed to maximize financing. However, less than 20% of the shares are sold through IPO to protect management control. A spin-off is a subsidiary established through an equity carve-out process; however, subsidiary shares are distributed to the parent company's shareholders on a pro-rata basis. In other words, the parent and subsidiary share a horizontal relationship, in which the parent company's shareholders own control premium (Lee,

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2020). The main controversy regarding equity carve-outs is the establishment of a subsidiary with high future growth potential as a separate entity and its listing in the stock market. If subsidiary and parent companies are listed simultaneously in the stock market, the value of subsidiaries reflected in the parent company no longer affects the parent company's value, inevitably damaging the parent shareholder's value.

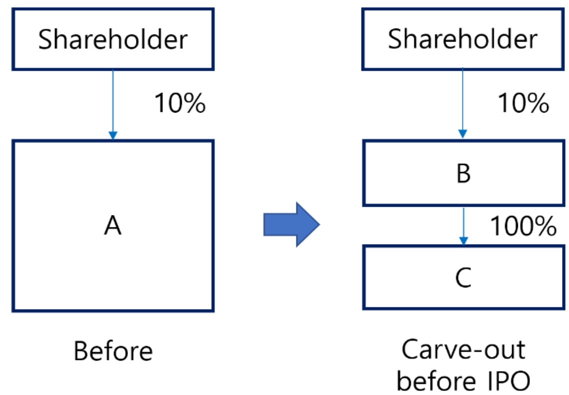
This case study illustrates the conflict of interest in transitioning from a traditional distribution industry to an e-commerce form of retail. Our study makes various contributions to the literature. First, we explain the effect of corporate governance in Korea on shareholder value, which is one of the main reasons for "Korea Discount." Due to the unique ownership structure of the Korean distribution industry, the equity carve-out was decided to maximize only the interests of the controlling shareholders, deteriorating minor shareholders' value. The prior literature regarding equity carve-out and spin-off explain the differences between equity carve-out and spin-off (Park, 2022), and damages to minor shareholder value caused by equity carve-out (Lee, 2020). In contrast, this case study explains the necessity of equity carve-out as a corporate business strategy. It suggests that damage to minor shareholder value is not a matter of the divestiture methods but a matter of management decisions. Second, this case study also illustrates the importance of corporate governance to students by explaining that corporate governance allows corporate policies to be formulated solely for the benefit of a small number of shareholders. In addition, this case study also presented herein sheds light on the importance of the government's role in protecting minor shareholder value from equity carve-out.

This study examines the details of equity carve-outs for E-Mart and SSG.com. It also provides implications for protecting minority shareholders' value through a comparison with equity carve-outs in the U.S. The remainder of this paper is organized as follows. Section 2 provides a background on equity carve-outs. Section 3 presents the equity carve-out case for SSG.com. Section 4 provides an evaluation of equity carve-outs and improvements for shareholders, and Section 5 concludes the paper.

2. Equity Carve-out in Korea

2.1. Equity Carve-out: Definition

Equity carve-out is a divestiture procedure in which a specific business department is established as a separate corporate entity that is a 100% subsidiary of its parent company (Lee, 2020). Excluding the synergy effect between the separate subsidiary and parent company, there are no changes in the overall corporate value.



Source : https://www.newsway.co.kr/news/view?ud=202104141549557040 '[NW Report] LG Chem-Big Hits Also 'Split'---The Economics of Spin-Offs'

Figure 1: Equity Carve-out before IPO of firm C

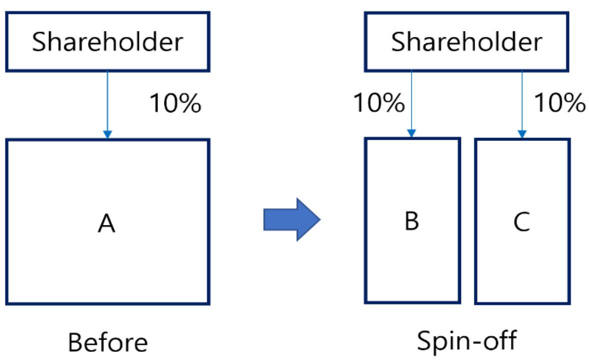
However, equity carve-outs in Korea consider the impact of an IPO after separation, which results from the holding company discount. The main controversy regarding equity carve-outs in Korea is establishing a subsidiary with high future growth potential as a sole publicly listed corporation. When subsidiary and parent companies are listed simultaneously, the value of subsidiaries reflected in the parent company should be deducted to prevent double counting, which leads to a parent share discount. Conflicts of interest between controlling shareholders, who have a greater influence on equity carve-out decisions, and minority shareholders influence the parent company discount. Therefore, equity carve-out is interpreted as a divestiture, representing only major shareholders' interests.

2.2. Equity Carve-out: Process

The equity carve-out process is a concept similar to payment-in-kind, which refers to the transfer of assets and liabilities at fair value in exchange for the acquisition of shares by a new company. Therefore, the procedure reviews the possible accounting and tax problems involved in transferring assets and liabilities at fair value and examines the possibility of listing a new split company on the Korean Securities Dealers Automated Quotations (KOSDAQ) market. Based on the reviewed data, appraisal and audit are requested after consultation with the Financial Supervisory Service (FSS). Following the appraisal, the subsidiary's details, such as the amount of equity, corporate name, executives, articles of incorporation, list of shareholders, and the total number of issuing shares, are confirmed by the FSS. This report is disclosed to the public on the day of the board meeting. The equity carve-out requires agreements to be approved by at least two-thirds of the presented shareholders at the shareholders' meeting, and it should be at least one-third of the total number of issued shares.

2.3. Difference between Equity Carve-out and Spin-off

A spin-off is similar to the concept of equity carve-out, in which a specific company department is divided into separate corporations. However, unlike the vertical equity carve-out relationship, a spin-off involves a horizontal division by the existing parent company. Additionally, subsidiary shares are distributed to the existing parent company shareholders on a pro-rata basis, indicating that the existing parent company shareholders hold a control premium for the subsidiary (Lee, 2020).



Source : https://www.newsway.co.kr/news/view?ud=202104141549557040 '[NW Report] LG Chem-Big Hits Also 'Split'---The Economics of Spin-Offs'

Figure 2: Spin-off

The difference between equity carve-outs and spin-offs is that the parent company (E-Mart) controls the subsidiary (SSG.com). In the equity carve-out, the parent company owns 100% of the subsidiary's shares, and not the shareholders, as the subsidiary is vertically divided. Thus, parent company shareholders indirectly control subsidiaries. By contrast, in the case of a spin-off, subsidiary shares are distributed directly to the parent company shareholders; therefore, they directly control the subsidiary.

3. Equity Carve-out in the Korean Distribution Industry: SSG.com Equity Carve-out Case

3.1. E-Mart Background

Established through only domestic investment, E-Mart Asia's first discount store launched the distribution business as an affiliate of the Shinsegae Group. After the Shinsegae Department Store was established in 1993, E-Mart's first store in Chang-dong, Seoul, began operations on November 1933. A warehouse-type membership mart called Price Club was established through partnership with Costco in the U.S. E-Mart Traders, the current E-Mart warehouse-type membership marts, were established based on the operation experience of the partnership. However, during the Asian Financial Crisis in 1998, the Shinsegae Group department stores' sales declined, whereas the E-Mart discount stores' sales increased. Therefore, the Shinsegae Group demanded the expansion of E-Mart; however, the group was required to clarify the partnership conditions with Costco, according to which Shinsegae would mandatorily open one Price Club store with an extra E-Mart. Through the growth of E-Mart, the Shinsegae Group realized that the discount store distribution business had high future growth potential. Therefore, Shinsegae decided to dispose of the Price Club shares to Costco to acquire the funds necessary to expand E-Mart stores and remove constraints.

The Shinsegae Group used the funds obtained from selling Korea's first credit card company to expand E-Mart. In 1996, a distribution center was established for the first time in Korea's distribution industry, and the first food processing center was built in 1998. An online shopping mall, SSG.com, was further opened in 2004. The Shinsegae Group also made aggressive investments through mergers and acquisitions (M&As). It acquired Walmart Korea in 2006 and opened its 100th store in Korea for the first time in 13 years. With E-Mart's rapid growth, its value exceeds that of its parent, which can be explained by the rate at which E-Mart was split. The rates for the Shinsegae Group and E-Mart were 0.261 and 0.739, respectively. This demonstrates that E-Mart has a larger business structure than the Shinsegae Group.

Table 1: E-Mart Spin-off

	Shinsegae	E-Mart
Spin-off Ratio	26.1%	73.9%
Equity	49.2 billion KRW	139.3 billion KRW
Business	Department Store	Supermarket
Affiliates	Shinsegae international, Shinsegae Chelsea, Shinsegae Gwangju, Shinsegae Uijeongbu	Josun Hotel, Shinsegae Food, Shinsegae I&C, Shinsegae E&C, Starbucks Korea, Shinsegae L&B, E-Mart China

Note: Published by The JoongAng

3.2. Reasons Underlying the SSG.com Equity Carve-out

SSG.com, which oversees online sales, was separated through an equity carve-out process in December 2018. The

Shinsegae Group primarily launched SSG.com to secure new growth engines as the offline distribution business crisis escalated. This strategy has been successfully implemented, with sales of 1.4924 trillion KRW in 2021, an increase of 77% from 844.1 billion KRW in 2019. However, the distribution business market trend has been changing rapidly from offline to online owing to the novel coronavirus pandemic. Therefore, the offline market-dominant E-Mart has also attempted to dominate the online market by raising funds through the SSG.com equity carve-out.

However, E-Mart shareholders are concerned about the discount of shares by the SSG.com equity carve-out. E-Mart has provided two reasons to explain why its shares would be free from price discount after the SSG.com equity carve-out. First, the relationship between E-Mart and SSG.com was symbiotic. SSG.com's profit model involves selling E-Mart and Shinsegae Group products online and receiving commissions. This finding indicates a complementary relationship between E-Mart and SSG.com, which implies that the problem of equity carve-out, in which the value of a subsidiary should be deducted from the parent company, does not exist. Moreover, the delivery service, which is classified as the core competitiveness of SSG.com, is conducted through picking and packing (PP) centers located at 120 E-Mart stores nationwide. This relationship differs from previous cases of equity carve-out, in which the benefits are obtained by the subsidiary, not parent company shareholders.

Furthermore, funds from equity carve-outs improve efficiency through information technology investment to build logistics center infrastructure, leading to E-Mart sales improvement. Offline distribution businesses have enormous cost barriers to entry, such as building- and distance-related costs. The growth of offline distribution businesses depends on customer accessibility, which represents the geometrical distance from their residence. However, owing to the no distance barrier, an offline distribution business can guarantee profitability only if it has a dominant market share. Coupang uses a strategy to dominate the market share in the online distribution market rather than profits. Considering the online distribution industry ecosystem, SSG.com's equity carve-out is an effective business strategy for E-Mart.

Second, the covenant whereby E-Mart mandatorily purchases all shares of financial investors may increase the financial burden if the IPO requirements of SSG.com are not met. SSG.com granted investors the right to claim when they received investments from three financial investors (Convergent TradeChannels Kft, Braxa Asia Fund I, L.P., and Braxa Asia Investment Limited) in 2019. The covenant states that investors have the right to sell all SSG.com shares to major shareholders between May 2024 and April 2027 if SSG.com fails to meet the growth merchandise volume (GMV) or IPO requirements. The major shareholders of SSG.com are E-Mart, Shinsegae, and the three abovementioned financial investors, with proportions of 50%, 26.9%, and 23%, respectively (see Table 2)

Table 2: Equity Proportion of SSG.com

Name	Equity proportion
E-Mart	50.1%
Sinseagae	26.9%
Convergent TradeChannels Kft	11.5%
Braxa Asia Fund I, L.P.	9.2%
Braxa Asia Investment Limited	2.3%

Note: Published by Sisajournal-e

If SSG.com fails to meet IPO requirements by the promised deadline, the investors can sell 23% of SSG.com's shares to E-Mart. The market expects approximately 10 trillion KRW in valuation when SSG.com is listed. E-Mart requires approximately 2.3 trillion KRW (calculation based on the price of existing shares sold) if investors exercise the right at this value, which is about half of E-Mart's current assets as of 2021, and 800 billion KRW more than its net profit of 1.5 trillion KRW. This financial burden from failing equity carve-outs may exceed the discount from equity carve-outs. Therefore, equity carve-outs are significant for E-Mart and its existing shareholders.

4. Evaluation of Equity Carve-outs and Improvements for Shareholders in the Korean Distribution Industry

4.1. Evaluation of the SSG.com Equity Carve-out in terms of Shareholder's Value

4.1.1 Price Changes after the Equity Carve-out and Compensation for Shareholders

Although the Shinsegae Group and E-Mart succeeded in expanding their appearance following the division, their total market value decreased. Based on the closing price on February 14, 2022, Shinsegae's and E-Mart's market values were 2.55 and 3.66 trillion KRW, respectively. Considering that Shinsegae's market value before the 2011 spin-off was 11 trillion KRW, company value fell by nearly half. The stock price chart shows that Shinsegae and E-Mart gradually declined over the past decade. Despite the tremendous level of external expansion, Shinsegae and E-Mart's corporate value declined because they could not get on board in time for e-commerce market expansion. Offline distribution businesses are considered limited to the domestic market because of the difficulty in finding new sales sources.

Table 3: Market Share of the Korean Distribution Industry

	2016	2017	2018	2019	2020
Online	75.4	105.1	124.7	147.4	176.2
Supermarket	33.2	33.8	33.5	32.4	33.8

Note: Published by The JoongAng

Table 4: E-Mart's Financial Changes

	2012	2021
Total Asset	11110.3	31121.2
Sales	7994.6	24149.7
Operating Income	254.4	315.6

Note: Published by BLOTER

Lotte Shopping, which is Shinsegae's rival, has also seen a decline in its share price over the past decade. In December 2018, E-Mart divided its online shopping mall business, E-Mart Mall (currently SSG.com), as a separate entity to overcome the limitations of the offline distribution market. The division aimed to enhance management efficiency through specialization in e-commerce business. E-Mart explained that division increases corporate and shareholder value by strengthening synergy and growth potential through M&As and external investment.

However, the recent drop in E-Mart's share price concerns SSG. com's equity carve-out. SSG.com, in which E-Mart owns a 50.1% stake, has selected Mirae Asset and Citi Global Market as the leading underwriters for listing since 2021. The market value of SSG.com is expected to be approximately 10 trillion KRW, and the GMV for SSG.com in 2021 was estimated to be approximately 5 trillion KRW. This valuation is based on the underwritten price of Coupang, which was 2.5 times the GMV. However, E-Mart has also been involved in double counting, a recent controversial issue in the Korean stock market. Double counting is the conflict in value between the subsidiary and parent company that occurs in the process of a subsidiary's public offering by equity carve-out. The subsidiary value included in the parent company's value should be deducted because the subsidiary is a separate listed entity. The government has also indicated the side effects of double counting, stating that the fairest way to avoid harming existing parent company shareholders is not to list subsidiaries that have been divided. This study thus examined the LG Chem equity carve-out issue to better understand the concept of double counting.

On September 17, 2020, LG Chem announced the division of its battery business, which is now LG Energy Solution. LG Chem growth was based on the petrochemical industry. However, the future value of the battery division, an eco-friendly energy business, is reflected in the stock price of LG Chem as environmental regulations are strengthened and the importance of environmental, social, and governance (ESG) management increases. Minority shareholders argued that LG Chem and its subsidiaries would suffer damage to shareholder value owing to double counting when the battery division is listed. This can be explained by the financial information following the division. LG Chem's assets and sales after the split were 24.7 trillion and 15.6 trillion KRW, respectively, and LG Energy Solutions' assets and sales were 10.2 trillion and 6.6 trillion KRW, respectively, which is 30% of LG Chem's assets and sales. On October 30, 2020, many conflicts between controlling shareholders, the National Pension Service, and minority shareholders ensued; however, the battery division was separated into LG Energy Solution on December 1. LG Chem's share price plummeted by more than 10% because of the finalization of the division. However, the stock price rose by more than 30%, based on the rapid growth of the battery industry and performance that exceeded market expectations before the listing of LG Energy Solutions. Since the listing of LG Energy Solutions was decided in December 2021, LG Chem could not avoid the holding company discount. The shares of LG Chem are currently trading at around 500,000 KRW, which is approximately a 60% drop from the highest price. Despite this drop in stock prices, there was no detailed compensation for shareholders who owned LG Chem. This case served as an opportunity to discuss minority shareholder value damage in the case of equity carve-out.

4.1.2 Business Strategies of SSG.com after the Equity Carve-out

Issues related to the future progress of SSG.com's equity carve-outs have both positive and negative aspects. First, from the management's point of view, the equity carve-out of SSG.com is expected to be positive for the parent company E-Mart, which contradicts the holding company shareholders' perspective. The management denied double counting because the equity carve-out process of SSG. com took place in 2018. This shows that market participants predicted an IPO from the beginning. Furthermore, considering the business structure, management is optimistic about SSG. com's equity carve-out. As SSG.com is in charge of Shinsegae Group's online business, its synergies with E-Mart are relatively strong. The sales growth of SSG.com is directly related to the growth of the parent company E-Mart, as a large portion of the products sold on SSG.com come from E-Mart and the Shinsegae department store. Complementary relationships with E-Mart and the department stores increase the shareholder values of both E-mart and SSG.com. Moreover, complementary relationships positively affect cost efficiency. SSG.com is collaborating with E-Mart's PP center as a delivery base, which can help maintain a manageable profit. By contrast, the dominant e-commerce player, Coupang, invests an enormous amount of funds in storage, which generates losses. Therefore, SSG. com's equity carve-out differs from cases with no special business connection between the parent company and the newly established entity, such as LG Energy Solutions. SSG.com and E-Mart have concentrated their core capabilities in both online and offline channels on the same customers and steadily expanded fashion and luxury items from the Shinsegae Department. The value of SSG.com, approximately KRW 10 trillion, is reflected by these synergies. Collectively, the sales growth of SSG.com can ultimately lead to the growth of all groups, including E-Mart and Shinsegae.

In addition, E-Mart plans to launch an integrated membership of SSG.com, Gmarket Global, and SCK Company (Starbucks Korea) in 2022 and expand it to all group affiliates within the year. The idea is to simultaneously provide benefits to online and offline customers. The omni-channel strategy is in line with the marketing strategy of large global retailers such as Amazon and Walmart. SSG.com has introduced a future investment strategy in which funds raised through equity carve-outs focus on developing technology capabilities and logistics infrastructure. They also emphasize that the omni-channel is the key strategy for the "New World Universe" promoted by the Shinsegae Group. According to a report released by IBK Investment, an M&A with SSG.com and Gmarket is expected to be finalized, and plans for regional base centers (E-Mart PP center, online-only logistics center expansion) support the synergies. Although there are variables such as SSG.com's loss in profits, the start of integrated membership from competitors, and market competition intensity, the improvement in fundamentals is effective based on the competitiveness of food at E-Mart and synergies with Starbucks. The high possibility of merging with eBay Korea, where E-Mart is the major controlling shareholder, is also recognized as a positive signal for shareholders.

However, negative opinions regarding this synergy also exist in the market. The biggest concern regarding E-Mart is the synergy effect compared to the acquisition amount of eBay Korea. E-Mart invested 3.56 trillion KRW in 80% of eBay Korea's shares. The valuation of eBay Korea was 10 trillion KRW in 2020, and the desired price in the following year was 5 trillion KRW. A total of 3.56 trillion KRW was a reasonable price at the time of acquisition; however, both internal and external evaluation changed owing to the major competitor Coupang's stock price decrease, and competition intensified as Naver's membership service started after the acquisition. Moreover, the Shinsegae Group bid an overvalued price compared to the Lotte Group, which wrote a price of less than 3 trillion KRW. It was not easy to accept a high sales multiple considering the cash-generating ability, and the market forecast for e-commerce started to stagnate. eBay Korea's performance in the first quarter of the previous year was acceptable for valuation. Unfortunately, the opportunity to confirm a downward trend in performance after the second quarter did not exist for E-Mart because the main bidding was conducted during the second quarter. In addition, E-Mart sold its headquarters in Seongsu-dong, Seoul, a symbol of the organization, for raising funds worth 3 trillion KRW to acquire eBay Korea. The Shinsegae Group has invested significant amounts in Starbucks Korea acquisition, acquiring baseball teams (SSG Landers), and wineries. As macroeconomic variance increases, Shinsegae's financial burden has risen rapidly. This increased financial burden for acquisition is considered a negative aspect of E-Mart. Consequently, the market considers the eBay acquisition price to be overvalued.

Internally, there are negative opinions regarding the acquisition price of eBay Korea. Considering the possibility that eBay would have made their financial numbers attractive right before the sale, it is possible that performance declined after the acquisition. An anonymous executive explained that E-Mart had not acquired eBay Korea with a sophisticated and pre-planned strategy. They focused on establishing an integration plan after the acquisition. Moreover, there is a divergence of perspectives of the traditional retail business E-Mart and the leader of e-commerce business eBay Korea. Regarding human resources, E-Mart has had difficulty integrating managers from eBay Korea because of different business cultures. Therefore, simply adding the e-commerce stakes of Shinsegae and eBay Korea is meaningless for business strategies and shareholder value.

Considering the aforementioned features, the synergy effect is still insignificant compared to the acquisition amount. Additionally, as the e-commerce market bubble begins to burst, questions about the acquisition amount have been amplifying. Another controversial issue is the acquisition of eBay Korea itself, which has been emphasized to potential investors in the IPO of SSG.com. The logic was that if eBay Korea's GMV were added to SSG.com, the valuation would be worth tens of trillions of KRW based on the sales multiple; however, the actual synergistic effect is unclear. Leading products from eBay Korea will be added to SSG.com after the acquisition is completed. However, while the attractiveness of SSG.com has increased, the added value of eBay Korea has inevitably declined. Therefore, whether merging eBay Korea with SSG.com would be attractive is questionable. Moreover, in large-scale M&As, whether the value of goodwill would remain appropriate for several years is ambiguous. However, in this case, the point of controversy arrived earlier than expected. Even had the price been reasonable during the M&A last year, delivering outstanding results over the next few years would pose a challenge.

4.2 Effect of Equity Carve-out on Shareholder Value

4.2.1 Problems of Equity Carve-out for Shareholder Value

The most problematic aspect of equity carve-outs in the current stock market is holding company discounts. In the case of LG Chem, shareholders who invested in anticipation of the future growth of the battery industry lost direct control of the battery business unit after separation. Indirect holding results in holding company discounts (Park et al., 2019). A significant factor reducing minority shareholders' value from the equity carve-out is that the holding company controls all listed subsidiaries' premiums. The separated entity becomes a 100% subsidiary of the holding company upon completion of the equity carve-out. Minority shareholders are not allowed access to decision-making for allocating profits obtained from the disposal of existing shares. This indicates that all control and disposal benefits of the subsidiary will be concentrated in the holding company, and minority shareholders are excluded from the benefits obtained from the listing of the subsidiary. Hong and Park (2019) stated that direct control of a subsidiary is essential for the holding company's existing shareholders' profit when the subsidiary's value is reflected in advance in the price of the holding company share. Considering the slow sales growth of the offline distribution industry and rapid expansion of the online distribution business, the value of SSG. com is already embedded in E-Mart's share price. Therefore, existing E-Mart shareholders' concern about holding company discounts based on double counting is inevitable.

Furthermore, even if profits from selling existing shares are distributed as dividends, the recovery amount for minority shareholders is likely to be insignificant compared to the amount disposed directly to the market in terms of tax. Minority shareholders mandatorily pay tax on dividend income, which is unfavorable for them because sale gains are not taxable unless they are major shareholders. Additionally, the holding company discount can be defined based on the stock price. The benefit from disposal is greater than that of control rights for most minority shareholders. However, holding companies' stocks are traded through block deals at a higher price rather than being sold directly in the market. As the gap between the market price and the holding company's share price increases owing to the holding company's discount, the advantage of the holding company's equity carve-out increases.

The controlling subsidiary's cost-sharing issue is another equity carve-out concern. The holding company starts with a 100% stake as the sole shareholder of the subsidiary after the division. Owing to the risk of losing control rights, selling existing shares is limited, even if profits from the sale of existing stocks are definite. Similar to this restriction on selling existing shares, the parent company should hold the shares, which incurs a cost for control rights. The cost is distributed to minority shareholders who do not benefit from control rights, placing them at a disadvantage (Rommens, 2004; Lee, 2019). Therefore, although the holding company discount resulting from the equity carve-out is unfavorable to minority shareholders, it could be interpreted as a positive factor for the holding company.

The equity carve-out decision implies that minority shareholders no longer enjoy a premium in the subsidiary's potential future growth. The essence of the equity carve-out problem lies in the fact that benefits are not distributed proportionally among shareholders. If the E-Mart shareholder structure is a single shareholder or a perfectly distributed ownership structure, a conflict of interest between shareholders would not exist. Collectively, the absence of conflicts of interest between shareholders is a challenging case; therefore, the protection of minority shareholder value is required in the case of equity carve-out.

4.2.2 Improvements in Equity Carve-out for Shareholder Value

As mentioned in this study, equity carve-outs cause holding company discounts owing to the double counting effect. As this is unfavorable to minority shareholders, the market asks for appraisal rights (Um, 2013; Kim, 2015; Son, 2017; Kim, 2018) as a protection policy. An appraisal right represents the acquiring corporation's obligation to purchase a share at a fair price at the shareholders' request. The advantage of appraisal rights is that shareholders are compensated by comparing the market price traded after equity carve-out and fair value, which embeds appraisal rights. To exercise appraisal rights, shareholders must perform the following three procedures. First, they must document their intention to oppose the division before the shareholder's meeting. Upon completion of notification, the appraisal rights will be activated by voting against or abstaining at the shareholders' meeting. Notably, even if the right is not automatically exercised, shareholders present intentions to exercise the appraisal immediately once again. A disadvantage of the appraisal rights procedure is that it is complicated for minority shareholders, especially in Korea, who are passive in participating in electronic voting at shareholders' meetings.

An alternative method discussed in the market for improving minority shareholders' value is preemptive right (Kwon, 2022). The preemptive right is an opportunity given to the existing shareholder to buy additional common stock in any future issue before offering it to the public. The advantage of preemptive rights is that existing shareholders are prioritized to maintain their investment positions, thereby alleviating some of the disadvantages of appraisal rights. However, the biggest concern regarding minority shareholders' preemptive right is that it requires additional costs to maintain an identical portfolio. In addition, as the preemptive right is not an obligation, shareholders must determine whether to exercise it. In the case of preemptive rights resulting from a new issuing share, the period for exercising preemptive rights is five business days, meaning that investors must decide whether to exercise their rights within five days. From the perspective of shareholders, who need to decide their position within a short period, the price of the priority option currently traded is insufficient to reflect the future growth value of subsidiaries, limiting minority shareholders' value. Collectively, the downsides of appraisal rights and preemptive rights being discussed in the market are as follows: (1) difficulty in understanding and implementing the right for individual investors; (2) forced position at a price that does not reflect future growth value owing to the short period; and (3) additional costs incurred to maintain the existing investment position.

The meaning of equity carve-outs in the U.S. is entirely different from that in the Korean stock market. The market recognizes the process of creating a 100% subsidiary, which is the first step of equity carve-out as a concept for a spin- and split-off (Hwang, 2012). The fundamental difference is that in Korea, the market recognizes the impact of the discount on holding company shares from IPO that may occur after equity carve-out. In contrast, the U.S. treats it as a simple separation that does not affect overall corporate value. This is because most parent companies list only 20% or less of subsidiary shares, and equity carve-outs aim to increase the parent company's value in the first place by listing an undervalued subsidiary (Annema et al., 2001). Therefore, they are relatively free of the effects of holding company discounts.

Considering the disadvantages of appraisal and preemptive rights, protection is necessary to maintain minority shareholders' value and reduce the burden of corporate purchase costs arising from appraisal rights and limited financing sources from preemptive rights. However, protection that simultaneously satisfies these conditions is difficult to implement. Moreover, based on the discussion on equity carve-out in the U.S. case, equity carve-outs should be decided to increase the overall shareholder value; otherwise, the holding company discount would be inevitable.

5. Conclusions

The market has increasingly focused on enhancing minority shareholders' value as the proportion of individual investors' investments has recently risen. In addition, equity carve-out, used as a financing method for subsidiaries in the past, has been highlighted as the underlying cause of holding company discount. Consequently, market participants, especially existing holding company minority shareholders, have raised the demand for protection regarding holding company discounts.

This study examined the details of equity carve-outs of Korean distribution industry market dominance E-Mart and SSG.com as particular cases. Specifically, it explained the concept of holding company discount by double counting and the differences in the equity carve-out of SSG.com compared to previous cases. We further analyzed the advantages and disadvantages of appraisal and preemptive rights, discussed in the market as protection for minority shareholder value. The complex process of acquiring rights, short exercise period, and additional costs to investors are disadvantages that pertain not only to small investors but also to corporate financing. The findings provide directions to improve shareholder value based on equity carve-outs in the U.S. The study also provides insights on the maturation of the Korean capital market by promoting a discussion on the revision of equity carve-outs.

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Appendixes

Appendix 1: Summary of the Main Contents of Previous Research

Previous research	Theoretical Background
Annema et al. (2001)	Equity carve-outs aim to increase the parent company's value in the first place by listing an undervalued subsidiary
Hong and Park (2019)	Direct control of a subsidiary is essential for the holding company’s existing shareholders’ profit
Hwang (2012).	The market recognizes the process of creating a 100% subsidiary, which is the first step of equity carve-out as a concept for a spin- and split-off in the U.S.
Um (2013) Kim (2015) Son (2017) Kim (2018)	The market asks for appraisal rights as a protection policy for the double counting
Kwon (2022).	An alternative protection policy discussed in the market for improving minority shareholders' value is preemptive right
Rommens (2004) Lee (2019)	The cost is distributed to minority shareholders who do not benefit from control rights, placing them at a disadvantage
Lee (2020)	Definition and explanation regarding equity carve-out and spin-off
Park et al. (2019)	Indirect holding results in holding company discounts