
3Q25 Financial Results

Earnings Call Transcript

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3Q25 Earnings Results

[Operator]

Good afternoon and thank you for attending today's call. We will now begin Meritz Financial Group's 3Q25 Earnings Call.

[MFG IR]

Good afternoon. This is Sang-hoon Kim, Head of IR at Meritz Financial Group.

Thank you for attending our third-quarter of 2025 earnings call.

In today's call, we will review the Group's third-quarter of 2025 result and announce the next shareholder return policy.

we have prepared three sessions: 1) CEO's presentation on the new mid-term shareholder return policy, 2) 3Q25 earnings review, and 3) Q&A session, and will be placed in order. The Q&A session will be divided into two parts: on-site questions from analysts and institutional investors and preliminary questions from general shareholders.

First, we have a greeting from Vice Chairperson and CEO of our group, Yong Beom Kim.

[MFG CEO]

Good afternoon. This is Yong Beom Kim, CEO of Meritz Financial Group.

Thank you for joining 3Q25 earnings presentation.

Before we begin the earnings review, I will outline the mid-term shareholder-return policy that will apply starting FY2026.

Meritz Financial Group decided to continue its ‘Mid-term Shareholder Return policy for an additional three years, maintaining a shareholder payout ratio of 50% of consolidated net income.’ This decision reaffirms the Group’s commitment to enhancing shareholder value, which remains our foremost management principle.

Over the past three years, we have maintained this principle despite a rapidly changing financial environment. Total shareholder-payout ratios were 51.2% in 2023 and 53.2% in 2024, with 2025 expected to exceed 50%.

The outcomes of the mid-term shareholder return policy have been clearly validated. TSR reached 175% over the past three years, significantly outperforming the KOSPI market and major financial peers. Our PER improved from 3x to approximately 8x.

Meritz Financial Group considers shareholder return as not only a part of capital allocation but also holds an independent significance - a tool to facilitate our business performance is appropriately reflected into share price.

Accordingly, even if the relative gap between shareholder-return yield and internal investment return fluctuates, the 50% of consolidated net income to shareholder return principle will remain unchanged.

But if, a large M&A opportunity substantially enhances long-term shareholder value, the payout ratio may be adjusted.

Although such a case has not occurred in the past three years and is not considered and assumed at this time, we will communicate transparently through public disclosures and earnings call if such an event occurs.

Please refer to our public disclosures for further details.

Meritz Financial Group will continue to exercise a transparent and consistent shareholder-return policy under the principle – that value of one share is equal for all shareholders.

Joining us today are Vice Chairperson Hee-moon Choi, and CEOs of Fire & Marine and Securities, CRO of the group. We will provide clear and detailed answers during the Q&A session following the earnings review. Thank you.

[MFG IR]

Thank you for the greetings.

Next, we will begin with the earnings review for 3Q25.

We will start with the holding company.

We have 3Q25 highlights on page 3. The holding company's consolidated assets reached 132.7 trillion KRW, up 14.8% from the end of last year. Cumulative consolidated net income for the 3Q reached 2.0268 trillion KRW, a 2.2% increase year-over-year. ROE stood at 25.9%, maintaining the highest level in the industry. Year-to-date EPS and BPS for the 3Q reached 11,102 KRW and 58,870 KRW, respectively, up 7.0% and 10.1% year-over-year.

Next, on page 4, we have the holding company's detailed business performance. Consolidated net income for 3Q was 668.4 billion KRW, up 1.9% year-over-year increase. Amid supportive financial market conditions, profitability improved across all segments except insurance profit, including interest income and fee-based income. Cumulative consolidated net income for the 3Q of the year was 2.0268 trillion KRW, marking the highest earnings result.

Next, on page 5, Meritz F&M posted 1.4511 trillion KRW, Meritz Securities 593.6 billion KRW, and Meritz Capital 98.6 billion KRW as a cumulative standalone net income for 3Q.

As for Meritz F&M, strong growth in high-quality protection health sales and a substantial increase in investment income contributed positively to earnings. However, due to a decline in expected to actual variance gains following the end of the medical strike, net income decreased by 2.8% year-over-year.

Meritz Securities continued its earnings growth, supported by stronger corporate finance results and an increase in wealth management income. It recorded net income of KRW 593.6 billion, up 13.8% year-over-year. Meritz Capital posted solid operating profit driven by growth in interest-earning assets; however, due to higher provisioning, net income declined 4.1% year-over-year to KRW 98.6 billion.

Next is page 7.

As of the third quarter, the holding company recorded an ROE of 25.9% and a double leverage ratio of 117.3%, maintaining both strong profitability and a stable leverage profile.

Year-to-date EPS stood at KRW 11,102, and BPS at KRW 58,870, demonstrating continued growth in per-share value.

Moving to page 8, on the Group's real estate exposure and credit cost.

At the end of 3Q25, the Group's real estate exposure totaled KRW 28.3 trillion—KRW 23.9 trillion domestic and KRW 4.4 trillion overseas. Senior loans accounted for 90% of the portfolio, and the average LTV was approximately 47%. The portfolio continues to be managed with a focus on high-quality assets.

In the third quarter, net additions to provisions and reserves amounted to KRW 29.4 billion, and impairment losses on beneficiary certificates were KRW 22.9 billion—both decreasing year-over-year.

As mentioned last quarter, in the case of the Homeplus loan, the partial store sale in July resulted in loan repayment, reducing the outstanding balance to KRW 1.1652 trillion as of the end of the third quarter. Correspondingly, KRW 10.5 billion of provisions and reserves was reversed.

Lastly, on page 9, we present the third-quarter progress of our Corporate Value-up Plan.

As of the end of the third quarter, the Bloomberg-based forward PER stood at 7.5x, and the share buyback-and-cancellation yield was 13.3%. This remains above our required rate of return of 10%, and we continue to execute a shareholder return policy centered on share buyback. Since the policy was introduced in 2023, cumulative TSR has reached 174.5%.

We have completed the entire KRW 550 billion share buyback under the trust signed in March. In addition, we are currently executing the KRW 700 billion share buyback under the trust signed on August 20.

In line with the standards disclosed through public announcement, we will continue to implement an active shareholder return policy.

Next, I will move on to the performance of our major subsidiaries.

In 3Q25, Meritz F&M recorded standalone net income of KRW 463.8 billion, a 6.3% year-over-year decline.

Insurance profit decreased due to the normalization of medical services following the end of the medical strike and an increase in the number of business days. However, investment income rose significantly, driven by gains from bond disposals and higher equity valuation gains.

Cumulative net income for the third quarter amounted to KRW 1.4511 trillion.

Insurance profit for the third quarter was KRW 300.1 billion, down 35.2% year-over-year.

Although both sales and profitability improved during the quarter, the primary driver of the decline was the reduction in expected-to-actual variance gains after the end of the medical strike.

However, investment profit recorded KRW 325.0 billion, up 59.4% year-over-year. This strong performance was supported by bond replacement trades for ALM purposes and higher FVPL gains.

In the long-term health protection market, growth has moderated as premium increases cooled the earlier surge in demand. At the same time, competition involving high promotion fees have intensified as companies seek to maintain momentum.

Since April, Meritz F&M has strengthened its price competitiveness and rapidly delivered products and coverage tailored to customer needs, securing solid sales momentum.

Long-term health protection new business sales grew 16% year-over-year in the third quarter, reaching a monthly average of KRW 10.2 billion.

With continued focus on total value creation, we are achieving growth in both sales and profitability.

In auto insurance, losses continued due to higher accident frequency caused by heavy rainfall. And for commercial insurance, earnings declined year-over-year as the loss ratio increased following a large-loss fire incident of factory.

Moving to page 15, which covers the CSM movement and the new business CSM multiple.

At the end of the third quarter, the CSM balance stood at KRW 11.47 trillion, an increase of approximately KRW 222.9 billion from the previous quarter.

Quarterly new business CSM amounted to KRW 423.1 billion, interest expense added KRW 90.2 billion, and CSM adjustments increased the balance by KRW 4.3 billion. Quarterly CSM amortization totaled approximately KRW 294.7 billion.

For 3Q25, the CSM conversion multiple was 12.5x, and for long-term health protection, 12.6x—showing improvement both year-over-year and quarter-over-quarter.

Please refer to pages 17 and 18 for investment yield and K-ICS ratio.

Year-to-date investment yield for the third quarter was 4.6%, and the preliminary K-ICS ratio was 242.7%.

Next is Meritz Securities on page 19.

In 3Q25, consolidated net income recorded KRW 200 billion, up 14.1% year-over-year.

Cumulative consolidated net income rose 18% year-over-year to KRW 643.5 billion.

Excluding Meritz Capital, standalone net income for the third quarter was KRW 157.7 billion, up 21.7% year-over-year, and cumulative standalone net income recorded KRW 593.6 billion.

In the third quarter of 2025, despite concurrent trends of stable financial markets and a fragile macroeconomic environment, Meritz Securities successfully executed several major deals through active deal sourcing efforts.

In addition, growth in client assets and higher fund management fees contributed to continued year-over-year earnings improvement.

On page 20, we present operating revenue by business.

In the third quarter, corporate finance profit increased 45% year-over-year, supported by steady fee income generated from both existing and newly executed deals, despite additional provisioning during the quarter.

However, interest income decreased 12% year-over-year due to lower interest income from loans, and trading income declined 16% year-over-year reflecting the impact of rising interest rates following diminished expectations for rate cuts.

Brokerage and wealth management income increased significantly, driven by continued growth in client assets and higher performance fees from certain funds.

Next, page 24 covers the risk management indicators.

On a consolidated basis, the Net Capital Ratio (NCR) improved to 1,354% through proactive management. The ratio of substandard-and-below loans declined to 4.1%, continuing the downward trend observed since the first quarter.

For Capital earnings and more details on Securities, please refer to the material.

Institutional Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

Thank you for giving me the opportunity to ask questions, and thank you again for presenting another clear shareholder return policy.

My understanding is that the Company will continue to apply the same shareholder return policy as in the past three years.

What I would like to ask is this: over the past several years, the share price has risen substantially, which likely changed the return levels of the factors you use in capital allocation decisions. Despite this, you maintained the 50% shareholder payout ratio. Could you elaborate on the rationale behind this decision?

Q2.

In the shareholder return materials, it was noted—as you mentioned earlier—that the payout ratio could be lower if a large-scale M&A opportunity arises.

If internal investment returns increase and the shareholder return yield declines, does that mean the shareholder return ratio could change even within the three-year period? I would appreciate your clarification.

A1&2.

This is Yong Beom Kim, CEO of Meritz Financial Group.

Since the two questions are closely related, let me address them together.

We decided to maintain the 50% shareholder payout ratio for the next three years based on two key considerations.

First, although our share price has increased meaningfully over the past years, expected EPS has grown at an even faster pace. As a result, the relative superiority between the buyback-and-cancellation yield (the inverse of forward PER) and the after-tax internal investment return has not changed in any material way.

Second, between 2018 and 2020, Meritz delivered a solid ROE of around 20%, yet TSR significantly underperformed the market. This reflected a period when the market's pricing function was weak and earnings were not properly reflected in the share price.

Shareholder return therefore has a role beyond capital allocation—it also helps correct such price distortions and ensure that business performance is appropriately recognized in the market.

This is the context behind my previous comment from earnings call that shareholder return carries “independent significance” beyond being a subset of capital deployment.

Based on these considerations, we stated that we intend to maintain the 50% shareholder payout ratio over the next three years, acknowledging that minor deviations may occur.

However, in exceptional situations—such as a large-scale M&A opportunity that is substantially enhances the shareholder value over the long term—the shareholder payout ratio may be adjusted. In such cases, we will communicate transparently through disclosure and earnings call. At present, we do not have any specific M&A under review.

Q3.

In your mid- to long-term corporate value-up plan, you continue to maintain the COE at 10%. Given the rise in interest rates and various shifts in market variables, please elaborate on the rationale behind keeping the COE at 10%.

Q4.

You mentioned maintaining a 50% shareholder payout ratio over the next three years. If valuation becomes quite elevated and the growth outlook for subsidiaries strengthens, could your capital allocation priorities change?

A3.

This is Yong Beom Kim from the holding company.

Let me first address the question on the required rate of return.

The required rate of return, or cost of equity, consists of two components: an inflation rate that compensates for the loss of future purchasing power, and a risk premium that compensates for the potential loss of principal.

While inflation is typically measured using the CPI, we believe the CPI can be distorted due to the selection of items included and the way it is calculated. Accordingly, the inflation assumption we use is meaningfully higher than the CPI or market interest rates, and it does not fluctuate frequently.

Meritz has maintained a 10% required rate of return since 2013. Should we decide to change this assumption in the future, we will disclose it in advance through a value-up announcement or a similar public disclosure.

A4.

Next, let me address the question regarding capital allocation to subsidiaries.

As mentioned earlier, over the past three years, both our share price and expected EPS have increased, and therefore the relative attractiveness between share buyback-and-cancellation yield and after-tax internal investment yield has not changed meaningfully. In this context, maintaining a 50% shareholder return ratio remains fully feasible.

In addition, both Meritz F&M & Marine and Meritz Securities hold ample capital above regulatory thresholds, so we will continue investing sufficiently to support their growth.

Q5.

We are seeing rapid growth in client assets within your retail business. Could you share your growth strategy for after 2027, when the zero-commission promotion ends? In addition, could you also provide an update on the new platform you are preparing—specifically the expected launch timing and the anticipated impact?

Q6.

In the securities business, the investment banking division appears to have delivered its strongest performance in recent years despite the challenging environment. However, interest income and trading income results declined in the third quarter. Could you elaborate on whether there were any specific factors behind this?

Lastly, wealth management earnings seem to have increased meaningfully compared with a typical quarter. Please also explain the key drivers of this growth.

A5.

This is Won Jae Jang, CEO of Meritz Securities. I will address the question regarding the retail business, and CEO Jong Min Kim will speak to the quarterly results.

To ensure continued growth beyond 2027, it is essential for us to maintain and expand our rapidly growing base of digital retail clients. To this end, we are laying the foundation to translate our current fee competitiveness into product and service competitiveness. As part of this effort, we are developing a new trading platform, which we expect to launch in the first quarter of next year.

Our new platform will go beyond simply providing financial information. It will offer an AI-powered investment community where global investors can interact and exchange knowledge. AI will curate, summarize, and translate insightful global content in real time, allowing anyone to easily access global investment ideas. It will also serve as a space where investors around

the world can come together—free from the limitations of geography or language—to share investment experiences and insights, ultimately connecting global investment knowledge.

Furthermore, we plan to evolve the platform into an AI-based private banking partner that provides customized financial advice tailored to each individual’s portfolio, helping clients grow their valuable assets. We also aim for this platform to become a leading example that drives a new, community-centered investment culture across the Korean financial industry.

A6.

This is Jong Min Kim, CEO of Meritz Securities.

Let me explain the key drivers behind the changes in our third-quarter results.

First, interest income declined year-over-year due to lower interest income from loans and higher funding costs. The quarter-over-quarter decline was mainly due to a base effect in the second quarter: approximately KRW 30 billion of previously unrecognized interest income was recognized all at once following the early repayment of certain investment assets.

Next, trading income is usually affected by various market factors, but the most significant impact this quarter came from valuation losses on bonds. As expectations for a base rate cut diminished, overall market interest rates rose, which led to mark-to-market losses on our bond holdings.

Lastly, the reason the wealth management division showed a meaningful increase compared with a normal quarter is that it includes not only retail WM results but also revenues from our role as a GP in fund formation and management. In the third quarter, a specific fund for which we acted as the GP delivered strong performance and was liquidated, resulting in approximately KRW 40 billion in performance fees being recognized.

Q7.

Over the past two days, we've seen that non-life insurers, including ourselves, are experiencing a rise in long-term risk loss ratios, and actual-to-expected variance profits have turned more negative. While you mentioned the medical-strike base effect and the impact of the number of working days, could you comment on whether there are additional structural factors driving the deterioration in loss ratios?

Also, are there still areas where our loss ratio or loss-amount performance is meaningfully differentiated from peers? I would appreciate your thoughts.

Q8.

Regarding capital regulation, the implementation of the discount-rate reform has been delayed, and discussions are underway on new ALM-related duration-gap regulations.

Given that our ALM positioning and matching are already strong relative to peers, could you share the strategic direction of our ALM management going forward?

A7.

This is Joong Hyun Kim from Meritz F&M.

I will address the loss-ratio question, and CRO Jong Won Oh will comment on discount rates and ALM. There are two main reasons behind the recent increase in long-term risk loss ratios across the industry.

First, the medical-strike base effect, which has been the primary driver of higher loss ratios in the first half.

As deferred medical demand normalized, loss ratios increased year-over-year. However, this is a temporary issue, and we have confirmed that the base effect has been easing since September.

Second, and more fundamentally, the industry experienced excessive price-cutting and unprofitable product sales from late 2022 until the new lapse-rate guideline for no-surrender products was established in April this year.

During this period, price reductions and the sale of onerous coverages and products were concentrated—particularly in GA channels—leading to record-high industry volumes.

Today’s industry-wide loss-ratio deterioration is essentially the aftereffect of that aggressive competition, and we expect the 2023–2024 vintages to show meaningfully higher loss ratios than other vintages, driving elevated loss ratios for some time.

However, our loss-ratio increase has been more limited than peers, and our actual-to-expected variance remains in positive territory.

Our cumulative 3Q long-term gross risk loss ratio was 93.0%, up 4.7%p year-over-year, but we view this as temporary rather than structural. A large portion of the increase is due to the normalization of medical services—such as higher screening, diagnostic, and surgical demand—and to non-recurring large property claims, including the North Gyeongsang wildfire and factory fires.

Looking ahead, we expect our loss ratio to lean more toward stabilization or decline, rather than rising. For the past two to three years, instead of joining the industry’s loss-making price competition, we have focused on maximizing total value, even at the cost of temporary declines in sales and market share.

We believe this discipline is the foundation of sustainable competitive advantage.

A8.

This is Jong-won Oh, CRO of Meritz F&M.

Let me comment on the discount-rate reform and ALM.

As you mentioned, the recent regulatory adjustments extend the implementation timeline for discount-rate normalization of insurance liability to 2035, while strengthening ALM-related

requirements such as duration-gap regulation. You asked whether these changes would lead us to alter our ALM policy.

The answer is no. The core principle of our ALM is, and will remain, matching the interest-rate sensitivity of assets and liabilities to minimize interest-rate risk. Which is the asset and liability matching. As of the end of September, our asset-liability matching ratio stands at 103.5%, indicating strong and stable alignment.

Regardless of regulatory revisions, we have, and will continue to apply this principle and maintain a high and stable level of ALM matching going forward.

Q9.

With the regulatory changes to sales commissions, the 1,200% GA commission cap is expected to take effect next year, and from 2027, a multi-year commission payout system will also be introduced. These measures are aimed at curbing excessive competition for new business, and we expect the market environment next year to differ meaningfully from this year. Could you share your outlook for the long-term protection health insurance market next year and Meritz's response strategy?

Q10.

Market expectations seem to be that industry-wide insurance profits were weak this quarter and that next year's insurance profit growth may also be subdued. If insurance operations remain challenging, can the investment segment offset this again as it did this year?

More broadly, how can the Korean insurance industry overcome its structural growth limits, and what are the drivers through which Meritz can continue to deliver earnings growth?

A9.

This is Joong Hyun Kim from Meritz F&M.

Let me address the question on market outlook and our response strategy.

For next year, we expect the overall long-term protection health insurance market to be flat to slightly reduced. As mentioned earlier, the industry is facing continued deterioration in loss ratios, which will inevitably pressure new-business profitability and overall earnings growth. When competition on product price riders and acquisition expenses is restricted, the market will naturally contract.

In the longer term, the upcoming commission-reform measures should help moderate excessive commission-driven competition in the GA channel. However, because the new rules will be implemented in stages, 2026 may see temporary spikes in expenses ahead of the transition.

Even so, we believe the extent of competition will be limited given the clear profitability constraints I have talked about.

However, Meritz plans to take a more constructive and proactive approach under our “total value maximization” principle. We are focusing on expanding both the quantity and quality of our captive channels—TA, TM, and Partners—while strengthening partnerships within the GA channel. In addition, we will continue to launch new products and riders every month to respond quickly to customer needs and maintain strong market presence.

A10.

Let me address the question on earnings outlook.

Compared to this year, we expect earnings growth next year.

For 2026, we anticipate insurance profit to be stable to slightly higher. We have consistently refined our pricing and underwriting to eliminate loss-making products and maximize total value within profitable product groups. This discipline allowed us to defend the downside in insurance profit even in 3Q.

Next year, we expect improvement in loss ratios as well as a positive contribution from higher new-business volumes compared with this year.

We also expect growth in the investment segment, though our focus is on strengthening long-term earnings power rather than short-term gains. We will continue to reinforce asset quality, optimize portfolio allocation, and diversify—particularly through increased domestic and overseas equity management.

Finally, to complement the natural limits of growth in the domestic market, we are actively exploring overseas opportunities. We are still in the early stage of assessing market characteristics, product lines, entry options, and long-term profitability. However, our objective is to secure long-term growth potential, and we will continue to evaluate opportunities with that in mind.

Q11.

I have an additional question regarding the overall investment portfolio and profitability. You mentioned that there could be changes in the portfolio at the Fire & Marine level, and as well as it seems that the market is also undergoing meaningful shifts, not just the real estate market but throughout the broader financial market.

Given these changes, it would be very helpful if you could provide some guidance on how the group's investment strategy or overall portfolio composition may evolve going forward.

Q12.

Recent media coverage suggests that Meritz Securities is engaging in a broader range of traditional IB transactions—including acquisition financing—beyond real estate deals. For those who may not be familiar with these areas, this could raise concerns that the return on invested capital might decline as the business mix broadens.

Could you share the company's strategic direction in managing capital returns and how you plan to maintain or strengthen profitability as deal activity diversifies?

A11.

This is Alex Choi from the holding company. I will address the Group's investment strategy, and CEO Jong Min Kim will speak to the traditional IB-related questions.

The core investment strategy is to remain firmly grounded in our existing investment principles while broadening the scope of our investment universe. In other words, we continue to focus on high-return assets, but we are expanding our portfolio beyond real estate project finance to include corporate finance, equities, and alternative investments.

The real estate PF market continues to recover slowly due to regional polarization, weak new project origination, and deteriorating liquidity among small and mid-sized developers.

In contrast, demand for capital raising in the corporate finance market is increasing, supported by expectations of interest rate cuts and tighter credit spreads.

In line with these trends, the Group is increasing its allocation to corporate finance and actively pursuing new investment opportunities anchored in corporate lending. In particular, Meritz Securities is strengthening its role as a provider of venture capital and expanding investments in high-growth companies.

In addition, as domestic and global equity market conditions improve, the range of investment opportunities has broadened. We plan to progressively increase our allocations to equities and alternative investments, focusing primarily on Korea and the U.S.

In summary, while adhering to our core investment principles, the Group is diversifying the quality of its investment portfolio—shifting away from a real estate-centric approach and increasing exposure to higher-growth asset classes.

A12.

This is Jong Min Kim of Meritz Securities.

Let me address the question regarding our traditional IB business.

I understand the concern stems from the general perception that profitability per deal tends to be lower in traditional IB areas such as DCM and ECM.

First, it is important to note that traditional IB does not necessarily imply low-margin business. In fact, large-scale transactions—where we provide essential, time-sensitive solutions to corporate clients—can generate very solid profitability.

For segments where competition is intense and we inevitably become a price taker, profitability per deal may indeed be relatively lower. However, this can be offset by increasing deal sourcing volume and scale, thereby improving capital turnover.

More importantly, by strengthening our sales channels and utilizing client capital alongside our own, we can reduce the proportion of equity used relative to the total invested capital. This

leads to greater efficiency in equity usage and ultimately enhances ROE, which is the most important driver of shareholder value.

In summary, our strategy is to: improve per-deal profitability through large, high-value transactions where optimal solutions are delivered at the right time, increase deal turnover by enhancing sourcing capabilities, and maximize equity efficiency through stronger product and sales channels. Through these initiatives, we will maintain strong ROE even as we expand further into traditional IB businesses.

Individual Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

Despite the continued share buybacks, it seems that our stock has been somewhat overlooked by the market. Could you share the Company's view on the reasons behind this, and whether there are any measures or considerations in place to address it?

A1.

This is Yong Beom Kim from the holding company.

We believe there are two main reasons why our stock appeared relatively overlooked in this year's market.

First, the overall improvement in Korea's market has reduced the so-called Korea discount. Meritz has already been trading at a relatively narrower discount thanks to our consistent performance and transparent shareholder-return practices. With the recent regulatory enhancements—such as amendments to the Commercial Act and other market-wide reforms—companies that had been trading at deeper discounts have seen a relatively larger rebound.

Second, the rotation of funds within the market. Recently, funds have been heavily concentrated in a few sectors, particularly semiconductors. We view this as a normal rotation of funds within the market.

Although these two factors resulted in our stock being relatively under-recognized for a period of time, we believe that as fundamentals, earnings power, and genuine shareholder-oriented management continue to be valued properly again, we anticipate conditions to change.

Q2.

The rehabilitation process for Homeplus appears to be experiencing delays. Could you provide an update on the current status, the outlook going forward, and the potential financial impact on the company?

A2.

This is Jong Won Oh, CRO of the holding company.

Let me provide an update on the Homeplus situation, the outlook, and the financial impact on the company.

First, regarding the changes in the Meritz Group's Homeplus exposure during the last quarter: On July 15, the sale of the Homeplus Shinnae store was completed, and the proceeds were used to repay Meritz Group's senior secured loan. As a result, our Homeplus loan exposure decreased by KRW 51.5 billion to KRW 1.1652 trillion, and KRW 10.5 billion in provisions and reserves was reversed.

Next, let me update you on the ongoing Homeplus sale process. The current sell-side advisor is Samil PwC, and since October the process has been conducted through an open competitive bidding format. Preliminary bids closed on October 31, with two parties submitting letters of intent. Both preliminary bidders are now conducting due diligence, and based on the results, they will determine whether to participate in the final bidding round. If they decide to proceed, they must submit their final acquisition proposal and funding plan by the final bid deadline of November 26. Accordingly, after the final bid deadline at the end of November, we expect to have a clearer view on the likelihood of the sale proceeding and the subsequent timeline.

Lastly, regarding the financial impact: while the sale process is ongoing and future timelines and outcomes may change, our loan is fully secured by high-quality real estate collateral. Therefore, we expect full recovery of principal and interest regardless of the outcome of the sale process, and any additional financial impact should be limited.

Q3.

In ‘The Outsiders’ and in various discussions about capital allocation, John Malone has emphasized issuing equity when a company is overvalued and aggressively repurchasing shares when it is undervalued.

From a long-term perspective, issuing equity at high valuations and buying back shares at low valuations seems like an excellent capital-allocation approach.

If Meritz were to trade at a significantly high valuation, would the Company also consider issuing new shares?

A3.

This is Yong Beom Kim from the holding company.

In principle, John Malone’s approach is correct.

When a company trades above its intrinsic value, issuing equity to raise capital is beneficial to existing shareholders; when it trades below intrinsic value, buying back and canceling shares is the right way to enhance shareholder value.

For example, if a company with an intrinsic value of 100 is trading at 70, aggressive share buybacks and cancellations create value. If the same company trades at 150, issuing equity and deploying the proceeds for internal investments would be advantageous to shareholders.

However, in the Korean market, indiscriminate equity issuances in the past have created strong negative sentiment toward rights offerings. As a result, whenever a company announces an equity issuance, the share price tends to drop sharply.

Therefore, to carry out a right offering without destroying value, the stock would need to remain significantly overvalued relative to intrinsic value even after such a decline—which requires an exceptionally high level of overvaluation.

At present, Meritz continues to trade below its intrinsic value. Accordingly, we are not considering an equity issuance at this time.

The end.