KOREA PAYMENT INFRASTRUCTURE

Market structure, consolidation dynamics, and buyout target screening

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A CONSOLIDATION STORY WITH THE CONSOLIDATOR LEGALLY PRE-DETERMINED

1 MATURE MARKET; CONSOLIDATION IS THE ONLY GROWTH

Card usage runs KRW 3.60tn per day, growing +4.7%. Company growth therefore comes only from share shift and M&A — and share shift is already happening: NICE I&T's VAN share 23.6% → 28.4% in four years.

2 FEES COMPRESSING AT EVERY LAYER

NICE PG take rate −29bp in a year; VAN fee per transaction −6%; KICC segment margin 7.7% → 6.1%. Within one industry, operating margins span 0.35% to 7.2% — a 20× spread explained by merchant mix.

3 CASH CONVERSION CLEARS THE LBO GATE

All nine data points clear a pre-set 60% gate and all three names trend up: Inicis 94%, KICC 79%, NICE 77% in FY25. Capex is 3–15% of EBITDA. The real constraint is settlement-float working capital.

4 THE BOTTLENECK IS THE KFTC, NOT PE APPETITE

PE is already in: Stonebridge–PayLetter bought KSNET in 2020 for USD 237.2m. What has not happened is horizontal combination — NICE reached the KSNET shortlist and withdrew over merger-clearance risk.

WHY NOW

RESET-FREE WINDOW

Fee recalculation cycle extended three years → six; next reset 2031. A 2026 entry holds entirely inside it.

A LIVE SECONDARY

KSNET still sits in Stonebridge's portfolio as of mid-2026, with a sale being explored.

CYCLE-LOW VALUATION

Inicis at 0–5.5× EV/EBITDA; its net financial assets (~KRW 284bn) exceed market cap (~KRW 270bn).

Sources: BOK Domestic Payment Trends 2025 · NICE I&T / KG Inicis / KICC FY25 annual reports (DART) · FSC 2025 Card Fee Reform Plan · Yulchon, TheBell, Hankyung

KRW 1,300TN FLOWS THROUGH THE RAILS; THE INVESTABLE FEE POOL IS ~KRW 4.4TN GROSS, ~1TN NET

3.60tn	~1,300tn	~4.4tn	~1tn
KRW CARD USAGE / DAY (+4.7%)	KRW ANNUALISED CARD-RAIL TPV	KRW GROSS FEE POOL	KRW NET POOL (RETAINED)

FEE-POOL SIZING — OWN SYNTHESIS

VAN ~1.03–1.09tn	26.4bn industry transactions × KRW 39–41 per transaction (TRS-excluded)
PG 3.35tn	Big four, all measured: Inicis 642.2bn + NICE 682.5bn + Toss Payments 793.2bn + NHN KCP 1,234.9bn
Net ~1tn	PG net of 82–87% pass-through leaves ~450–600bn; VAN counted at company-retained revenue

On rails carrying ~KRW 1,300tn, the acquirable fee pool is ~KRW 4.4tn gross and ~KRW 1tn net — not large, but every won of it sits behind a licensing moat.

CARD RAIL VS THE BYPASS RAIL

≈ 9% of the card rail

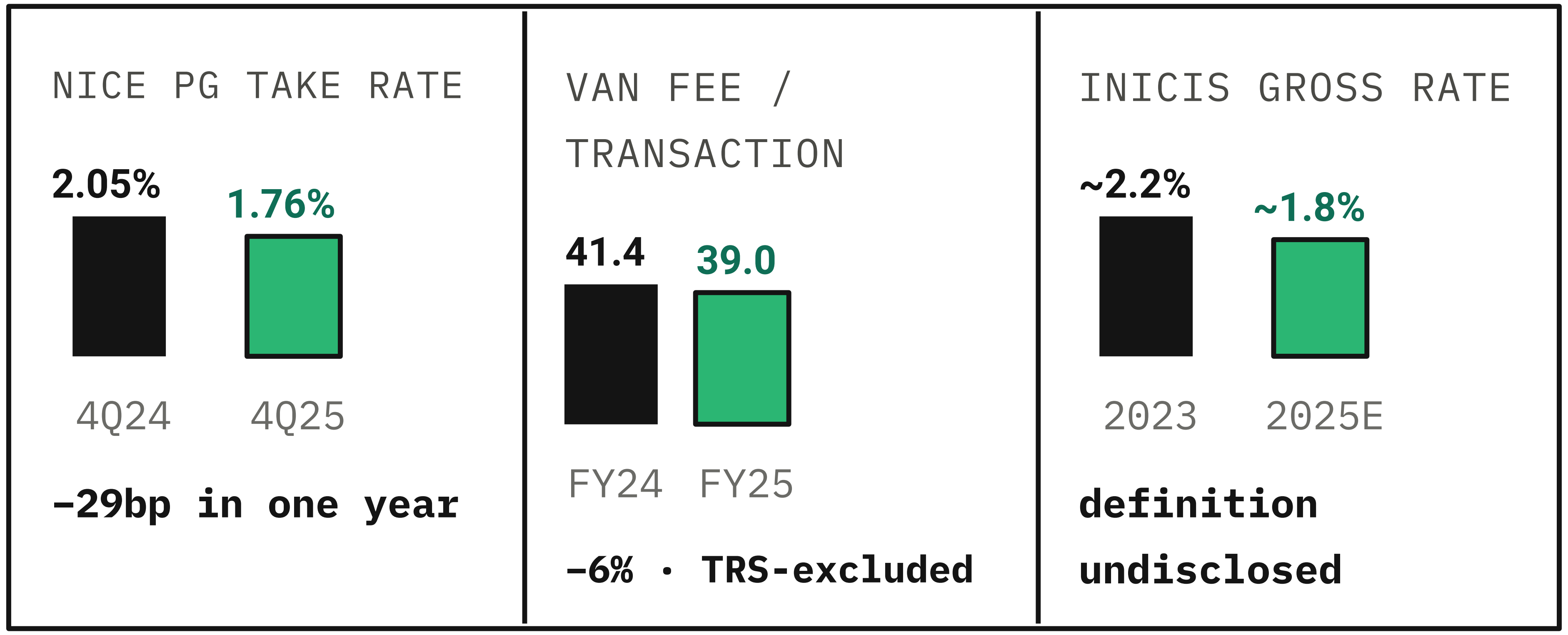
"EASY PAYMENT KILLS THE VAN" — DISMISSED

The BOK publishes a series called "share of card-based simple payment" — official confirmation that easy payment runs *on* card rails (51.9% of mobile payments, 2025). Fintechs hold 72.5%: the threat is front-end capture, not rail displacement.

Sources: BOK Domestic Payment Trends / Electronic Payment Services 2025 · VAN Association via NICE FY25 · DART note 27 · TheBell · KCP Feb 2026

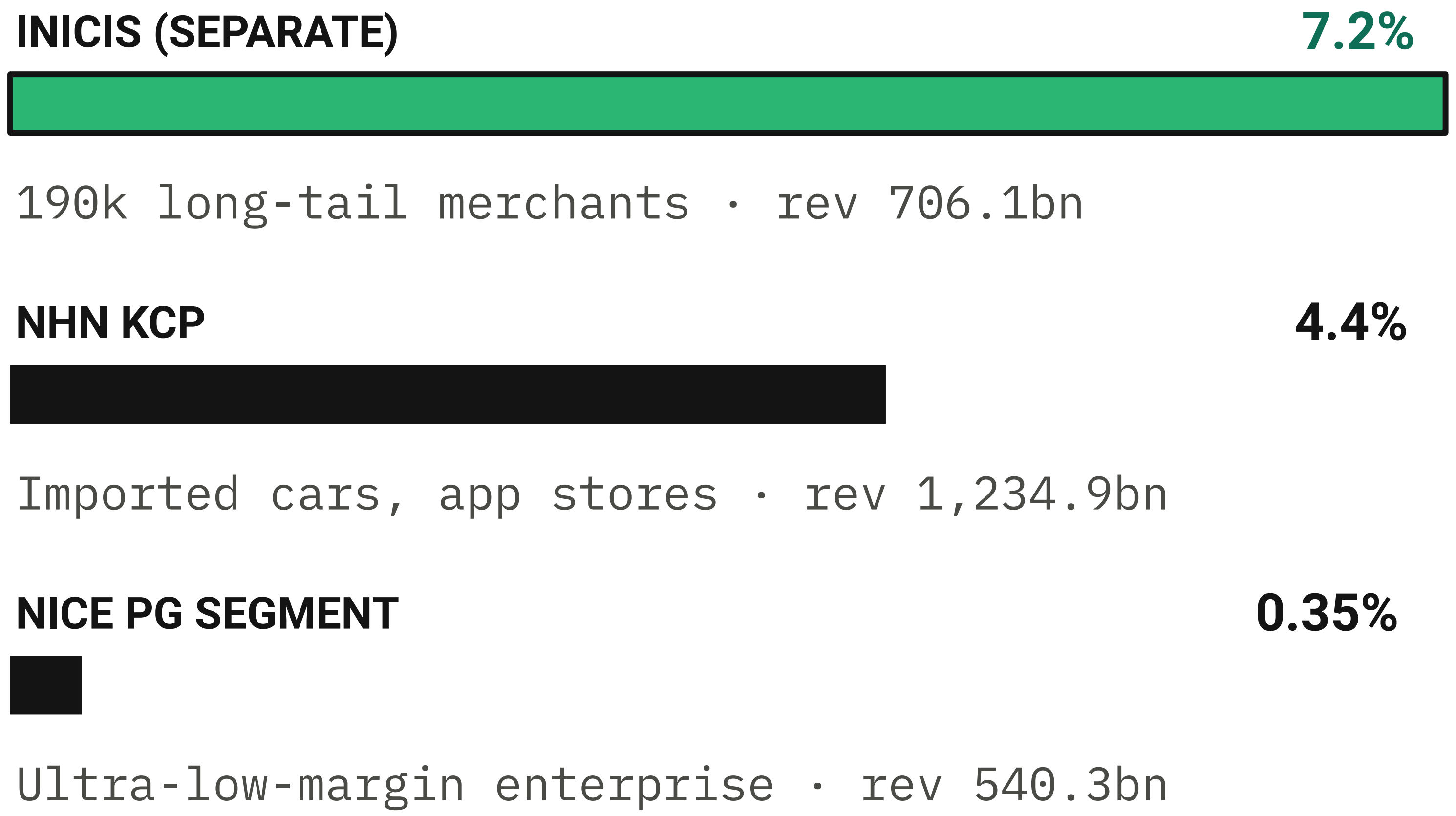
FEES ARE FALLING AT EVERY LAYER — AND THE P&L LANDS WHEREVER THE MERCHANT MIX SAYS

COMPRESSION AT EVERY LAYER



Mechanism: mandated fee recalculation → issuer margin squeeze → passed down into VAN rebates and PG fees, plus large merchants integrating directly with issuers and low-margin enterprise mix. Issuers' merchant-fee income fell for the first time in five years.

THE MARGIN SPECTRUM — FY25



A PG's acquisition value lies not in its TPV but in its merchant mix — enterprise-heavy PGs are volume assets; long-tail PGs are margin assets.

VAN SHARE 23.6% → 28.4% Even under compression the top operator absorbs volume from below — own transactions 4.88bn → 7.49bn (2021→2025). Consolidation is already happening organically.

Sources: NICE 4Q25 IR · NICE FY25 segment note p.68 · KCP disclosure Feb 2026 · Inicis FY25 separate accounts · Dealsite (TPV definition undisclosed) · Credit Finance Association

BIG MONEY PASSES THROUGH; A THIN SLICE STAYS — AND THE SLICE IS SHRINKING FASTER THAN THE FLOW

IDENTICAL PASS-THROUGH STRUCTURE — 82–87%

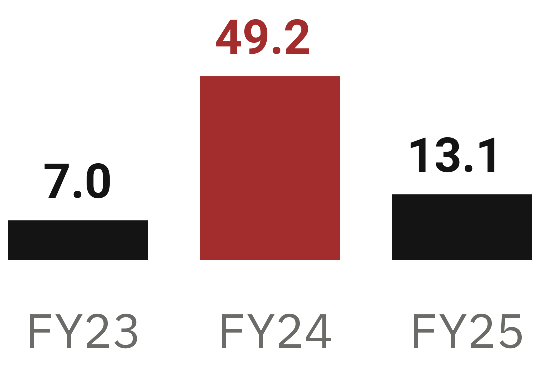
Inicis (separate) — PG fee revenue KRW 642.2bn **87% out**

Pass-through 556.8 | 85.4

KRW BN	GROSS	PASS-THROUGH	RATIO	NET
Inicis (sep.)	642.2	556.8	**87%**	85.4
NICE (group)	—	—	**~82–85%**	—
KICC (cons.)	803.8	687.3	**82%**	—

The real size of the business is net revenue. Inicis net revenue KRW 85.4bn against 96.8bn — **−11.8%, falling five times faster than gross revenue's −2.3%.** Operating margin on net revenue ~60%; net take rate ~24bp.

TMON/WEMAKEPRICE BAD DEBT — AND RECOVERY



KRW bn, Inicis bad-debt expense

Settlement risk is not theoretical; it has been realised — and the segment stayed profitable. The same class of risk cut Worldline 59% in a single day.

WHAT SYNERGY ACTUALLY IS

Where 82–87% of revenue passes through, synergy means eliminating duplicated pass-through costs and merging duplicated agency networks with rationalised rebates — not terminal-capex savings, which are not on the books at all.

Sources: Inicis FY25 separate notes 27 p.231 & 29 p.235 · KICC FY25 expenses-by-nature note · net take rate ~24bp = FY25 net revenue ÷ TPV est. KRW 35–36tn (TPV undisclosed since 2023 — diligence item #1)

GROWTH HAS STOPPED; CASH HAS NOT — ALL NINE DATA POINTS CLEAR THE 60% GATE

KRW BN	INICIS FY23	FY24	FY25	NICE FY23	FY24	FY25	KICC FY23	FY24	FY25
OPERATING PROFIT	56.1	55.1	50.9	36.7	39.9	55.3	35.7	39.1	45.2
D&A	~5.1	5.1	5.0	27.1	28.9	26.4	10.7	12.3	14.0
EBITDA	~61.2	60.2	55.9	63.8	68.8	81.7	46.4	51.5	59.2
CASH CAPEX	3.9	3.2	1.7	16.4	14.9	8.3	7.5	9.3	5.9
LEASE PRINCIPAL	1.7	1.7	1.9	8.7	9.8	10.5	5.9	6.0	6.3
CONVERSION	~91%	~92%	~94%	61%	64%	77%	71%	70%	79%

WHERE DID THE TERMINAL CAPEX GO?

Externalised onto the agency network. NICE's group PP&E is KRW 14.7bn net book value for 7.49bn transactions a year — and it is statutory, not an accounting choice: Art. 16-3 of the Specialized Credit Finance Business Act requires VANs to register their recruiters. KICC's direct-sales model, by contrast, runs 5.4–9.0bn/yr of tangible capex.

THE REAL RISK: SETTLEMENT FLOAT

Operating cash flow whipsaws — NICE 144.0 → 13.7 → 163.6; Inicis 52.3 → 10.2 → 115.4; KICC 103.5 → −8.7 → 27.7. The binding LBO constraint is the size of the settlement-cycle revolver, and mandatory escrow under the amended EFTA turns that float into cash that cannot be pledged. NICE holds KRW 353.4bn cash against effectively zero borrowings.

Conversion = (EBITDA − cash capex − lease principal) / EBITDA; ROU amortisation in D&A, lease principal deducted. Capex on cash-flow basis. Sources: FY25 annual reports — NICE CF pp.33-38, PP&E p.84 · Inicis CF p.173, note 29 p.235 · KICC CF p.37

THE MOAT IS STATUTORY; THE FEE PRESSURE IS SCHEDULED — AND THE NEXT RESET FALLS AFTER A TYPICAL EXIT

A MOAT WRITTEN INTO LAW

→ **Acquiring is FSC-licensed.** Purchasing sales slips and paying merchants is the business of a licensed credit-card company (Art. 3) — the Adyen-style independent acquirer is legally impossible in Korea.

→ **Adyen is in fact blocked.** No Korean acquiring licence; Korean-issued cards run a full redirect to KCP's hosted page. Stripe routes through NICE. The predator that killed Europe's roll-ups is, in Korea, a customer of the local PGs.

→ **Domestic transactions run a closed loop.** They do not traverse Visa/MC; issuers' own networks with VANs/PGs as processors, plus Korea's own IC standard (KLSC). No global strategic can bolt Korean volume onto an international platform — which is why that buyer seat is empty.

→ **Why the VAN exists: n×m deduplication.** Millions of merchants × eight issuers, connected once. Barriers = EFTA registration, shared-infrastructure economics, issuer data neutrality.

THE REGULATORY CALENDAR

Feb 2025	Recalculation effective: small-merchant rates cut 0.05–0.10%p, credit minimum 0.4%; 3.05m merchants, ~KRW 300bn relief
2026	**Entry — hold period begins inside the reset-free window**
End-2027	Necessity review only — the one calendar risk to the six-year cycle
2031	Next scheduled recalculation (assessed end-2030) — cycle extended three years → six in principle

Europe repriced continuously through open-market renegotiation; Korea's next compression has a date on the calendar — and that date falls after exit.

Sources: Specialized Credit Finance Business Act Arts. 3, 16-2, 16-3, 23 · FSC 2025 Card Fee Reform Plan (Dec 2024) · Adyen documentation · NICE 4Q25 IR · Risks: early reset at the end-2027 review; FSC conduct rules flagged for downstream PGs

EUROPE PROVED HOW LISTED ROLL-UPS DIE; KOREA'S THREE DEALS SHOW WHO CAN ACTUALLY CONSOLIDATE

WHAT FAILED IN EUROPE

01 **M&A concealed organic weakness.** From 3Q23 the market interrogated the composition of Worldline's growth.

02 **Merchant risk detonated.** ~€130m of high-risk revenue cut under BaFin pressure; the day closed **−59.2%.** A 2025 fraud exposé took a further −41% — cumulative ~−92%.

03 **Nexi: fee free-fall on leverage.** ~−65% over four years; debt ~€6bn against €3.6bn revenue.

04 **PE now circles the wreckage.** CVC weighs ~€9bn for Nexi (Apr 2026); the blocker is Italy's golden-power regime — the final gate is political.

DEAL · 2019–20	BUYER	PRICE	IMPLICATION
LG U+ e-payment	Toss / Viva Republica	KRW 365bn	Sole final bidder; Toss Payments revenue 219.5 → 793.2bn — platform synergy, proven
KSNET	Stonebridge PE · PayLetter	**USD 237.2m**	First true payments LBO (Woori financing); 2022 carve-out executed; still held, sale explored
NICE's double withdrawal	—	—	Withdrew from both — KSNET on KFTC merger-clearance risk

THE CENTRAL PROPOSITION

PE is already in. What has not happened is horizontal combination, and the bottleneck is not price — it is the KFTC. Therefore the consolidator cannot be a strategic; it must be a non-affiliated financial investor.

KOREA INVERTS ALL FOUR Consolidation can happen unlisted · opposite capital structure (Nexi €6bn debt vs NICE KRW 353.4bn net cash) · merchant risk already realised and absorbed · compression is regulated, on a calendar.

Sources: Reuters / FT (Worldline, Nexi, CVC) · Yulchon (KSNET consideration) · TheBell · Hankyung (NICE's KFTC withdrawal) · THE VC, Jun 2026

THREE WAYS IN, RANKED BY EXECUTABILITY

A

KSNET SECONDARY — IMMEDIATELY ACTIONABLE

A proven LBO structure with a Woori financing precedent, an executed carve-out track record, and a sale currently being explored. Operating profit fell KRW 19.28bn → 13.21bn (2021→24, −32%): the entire diligence question is the nature of that decline — structural fee compression, one-offs, or mix.

RISK · BUYING A MELTING ASSET

Return · lowest entry price + an instant platform

B

NON-AFFILIATED FI-LED HORIZONTAL ROLL-UP — THE CORE THESIS

The only actor that can pass the KFTC gate is a non-affiliated financial investor. The 13 VAN Association members are the roll-up pool, and the synergy is specific: deduplicated pass-through costs, merged agency networks, rationalised rebates.

RISK · MULTI-DEAL EXECUTION

Return · the multiple-arbitrage engine itself

C

CONGLOMERATE CARVE-OUT — MAXIMUM DISCOUNT

Inicis: net financial assets (~KRW 284bn) exceed market cap (~KRW 270bn) — the market prices the payments business at effectively zero inside a group mixing restaurants, education, property and consumer finance. NICE: payments spread across parent, Payments and IONPAY — a sum-of-parts, multi-entity structure.

RISK · OWNERSHIP PERSUASION, SOURCING

Return · the widest valuation gap

Whichever path — the consolidator is the same: a non-affiliated financial investor.

Sources: NICE Information Service data via Saramin (KSNET operating profit) · Inicis FY25 separate balance sheet; market cap at KRW 9,460/share, 24 Jul 2026 · THE VC (KSNET status)

WHAT KOREAN PAYMENT ASSETS COST TODAY

COMPANY	REVENUE (LATEST FY)	OP. PROFIT	OWNERSHIP	ANGLE
KG Inicis (035600)	706.1 sep. · FY25	50.9 (7.2%)	KG Group	Carve-out — net cash > market cap
NICE I&T (036800)	1,094.7 cons. · FY25	55.3	NICE Holdings	Sum-of-parts — VAN 10.0% + PG 0.35%
KICC (025770)	803.8 seg. · FY25	45.2	Founding family	Opacity case; direct-sales model
NHN KCP (060250)	1,234.9 · FY25	54.7 (4.4%)	NHN	Only pure listed PG comp · TPV 51.5tn
KSNET (unlisted)	231.9 · FY24	**13.2 (5.7%)**	Stonebridge PE	**Live secondary · 3-yr OP −32%**
Smartro (unlisted)	215.8 · FY25	–	BC Card	Strategic hold — not for sale
KIS I&C (unlisted)	312.5 · FY24	14.3 (+20.1%)	NICE Group	Group sum-of-parts component

ANCHORS				
	Inicis P / sep. OP **5.3×**	P / net revenue **3.2×**	EV/EBITDA **0 – 5.5×**	P/E · P/B **4–6× · 0.52×**
	Nexi — CVC **2.5× rev**	Toss-LG U+ '20 **~1.2–1.3×**	KSNET '20 **~1.2× rev**	**Europe's wreckage: 2.5×**

The entire market cap of Inicis — top-tier PG, VAN and all group businesses included — is less than the KRW 365bn Toss paid in 2020 for a single PG division.

KRW bn. Latest disclosed FY per row — KSNET and KIS I&C are FY24; unlisted figures via NICE Information Service, re-verify at diligence · EV range: conservative (310bn) to broad (≈ 0)

KSNET — KOREA'S FIRST TRUE PAYMENTS LBO, NOW A LIVE SECONDARY

OVERVIEW

Founded 1999; top-five VAN plus PG (KSPAY) and, formerly, firm banking. In March 2020 a Stonebridge Capital–PayLetter consortium acquired 100% and control from South Africa's Net1 UEPS Technologies for USD 237.2m (~KRW 280bn), with acquisition financing arranged by Woori Bank. BC Card bid; NICE withdrew on KFTC grounds.

FINANCIAL SNAPSHOT · VIA NICE INFORMATION SERVICE

KRW BN	2021	2022	2023	2024
REVENUE	—	—	—	231.9
OPERATING PROFIT	19.28	18.83	16.59	**13.21**
NET PROFIT	18.99	4.82	13.66	11.02

Op. margin 5.7% (FY24) · 2021 basis change and 2022 spin-off break comparability

WHY IT MATTERS

→ Korea's first true payments-infrastructure LBO — it established the financing precedent

→ 2022 horizontal spin-off of firm banking (Hyphen Corp) — carve-out value creation, executed

→ A sale explored as of 2026 — the live test case for how the next consolidation happens

RISKS / DILIGENCE AGENDA

- OP −32% over three years — determining the decline's nature *is* the diligence
- Selling into declining earnings explains the valuation gap and the delayed exit
- TMON/WeMakePrice exposure avoided — declined the gift-certificate tender
- Shared sector risks: direct issuer integration, fee compression
- Stand-alone cost structure of the remaining perimeter post-spin-off

Sources: Yulchon deal announcement · TheBell · Hankyung (NICE withdrawal) · NICE Information Service via Saramin/Catch — flagged for diligence-level re-verification · THE VC, updated Jun 2026

WHAT BREAKS THE THESIS, AND WHERE EVERY NUMBER COMES FROM

WHAT BREAKS THE THESIS — IN PRIORITY ORDER

01 **Working capital / settlement float** — OCF swings of ±KRW 100bn; mandatory escrow under the amended EFTA makes the float unpledgeable

02 **Early fee recalculation** — the end-2027 necessity review could break the six-year calendar

03 **New PG regulation** — FSC conduct rules flagged for second-tier and downstream PGs

04 **Accelerated wallet front-end capture** — fintechs at 72.5% of simple payment; own-prepaid funding would erode card-rail growth (ten-year clock)

05 **Merchant credit risk recurrence** — absorbed once, but the master-merchant settlement structure remains

06 **Korea's golden-power analogue** — EFTA major-shareholder approval and the FSC's stance on foreign FIs owning payment infrastructure: unverified

METHOD & SOURCES — EVERY FIGURE TRACEABLE

→ **Primary filings** — Inicis, NICE I&T, KICC FY25 annual reports (DART), cited to the page; NHN KCP disclosure 11 Feb 2026

→ **Statistics** — BOK Usage of Electronic Payment Services 2025, Domestic Payment Trends, Payment & Settlement Report; Statistics Korea; VAN Association volumes

→ **Regulation** — Specialized Credit Finance Business Act Arts. 3, 16-2, 16-3, 23; FSC 2025 Card Fee Reform Plan

→ **Deal records** — Yulchon (KSNET USD 237.2m), TheBell (Toss–LG U+ KRW 365bn), Hankyung (NICE's KFTC withdrawal)

→ **International** — Adyen documentation (no Korean licence; KCP redirect); Reuters et al. on Worldline, Nexi, CVC €9bn

→ **Calculation principles** — perimeter consistency between numerator and denominator, estimates labelled with method, TRS-excluded calculations flagged, and disclosure *absence* recorded as a finding

METHOD Numbers are measured, not illustrated: primary filings cited to the page, official statistics for the market, statute for the moat, and counsel announcements for the deals. Where companies do not disclose, the absence is itself a diligence agenda item.