

February 2023

KOR.

SM 3.0 : **Global Expansion & Investment Strategy**



SM 3.0, the Future: 4 Key Growth Strategies

2023~

SM 3.0 Leap to a global entertainment company focused on fans & shareholders

1

[IP strategy] Multi 'Production Center/Label' system

2

[Business strategy] IP monetization (Music streaming, IP license, etc.)

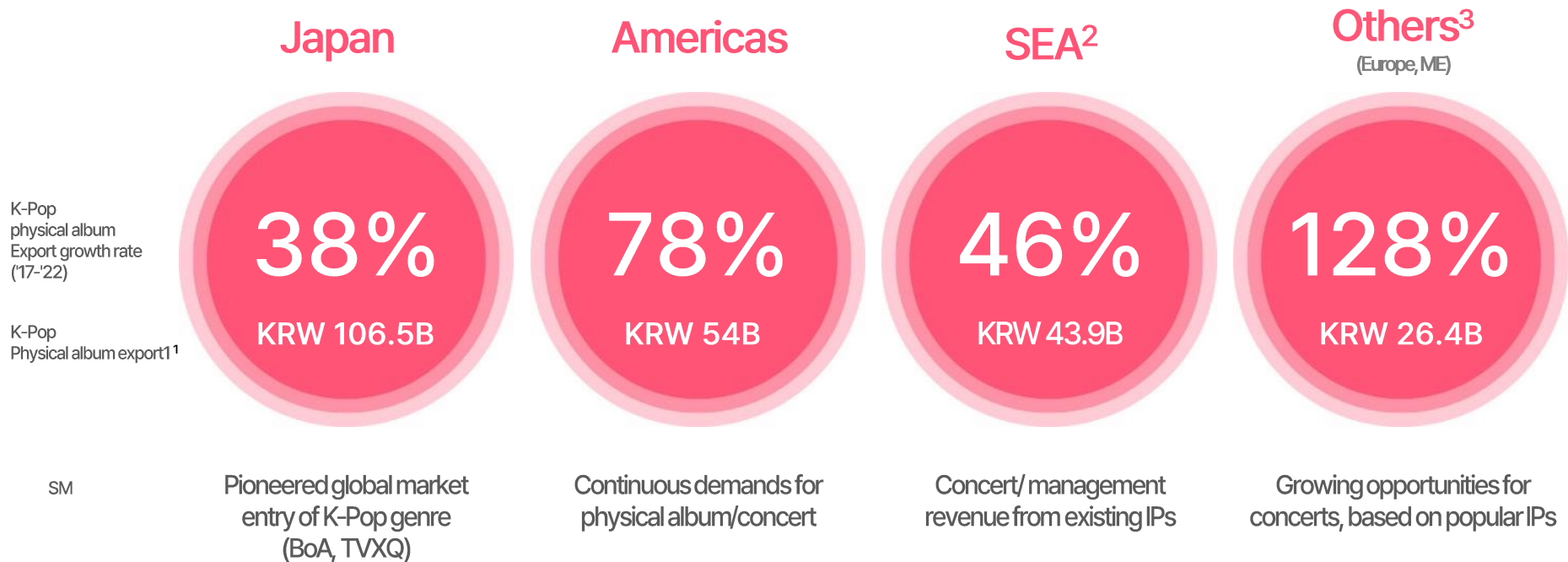
3

[Global strategy] Global expansion (Japan, US, SEA, etc.)

4

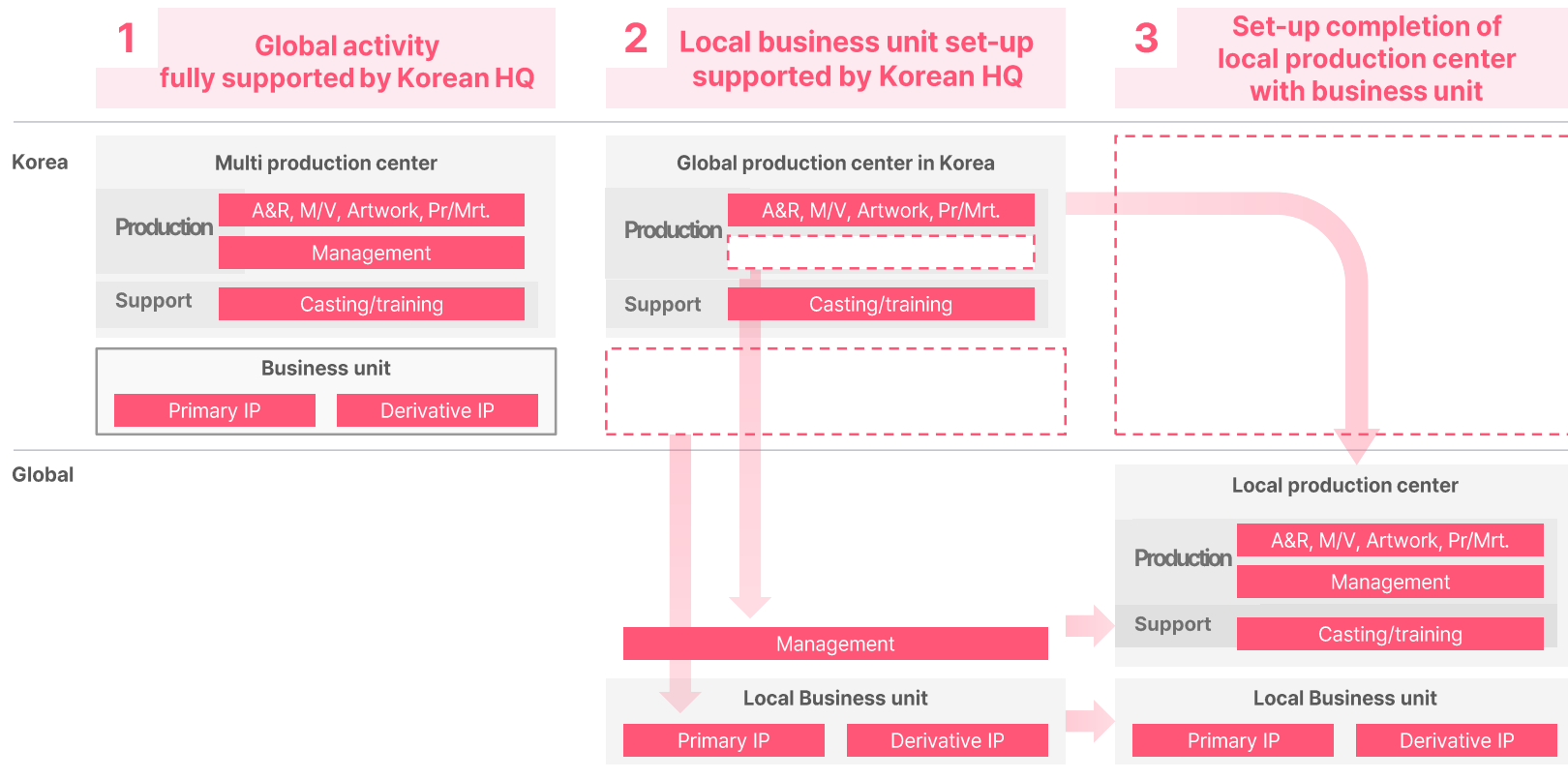
[Investment strategy] Global Music Publishing, Label Acquisitions, Fandom Business, Investment in Metaverse, etc.

Globalization of K-Pop will Further Expand

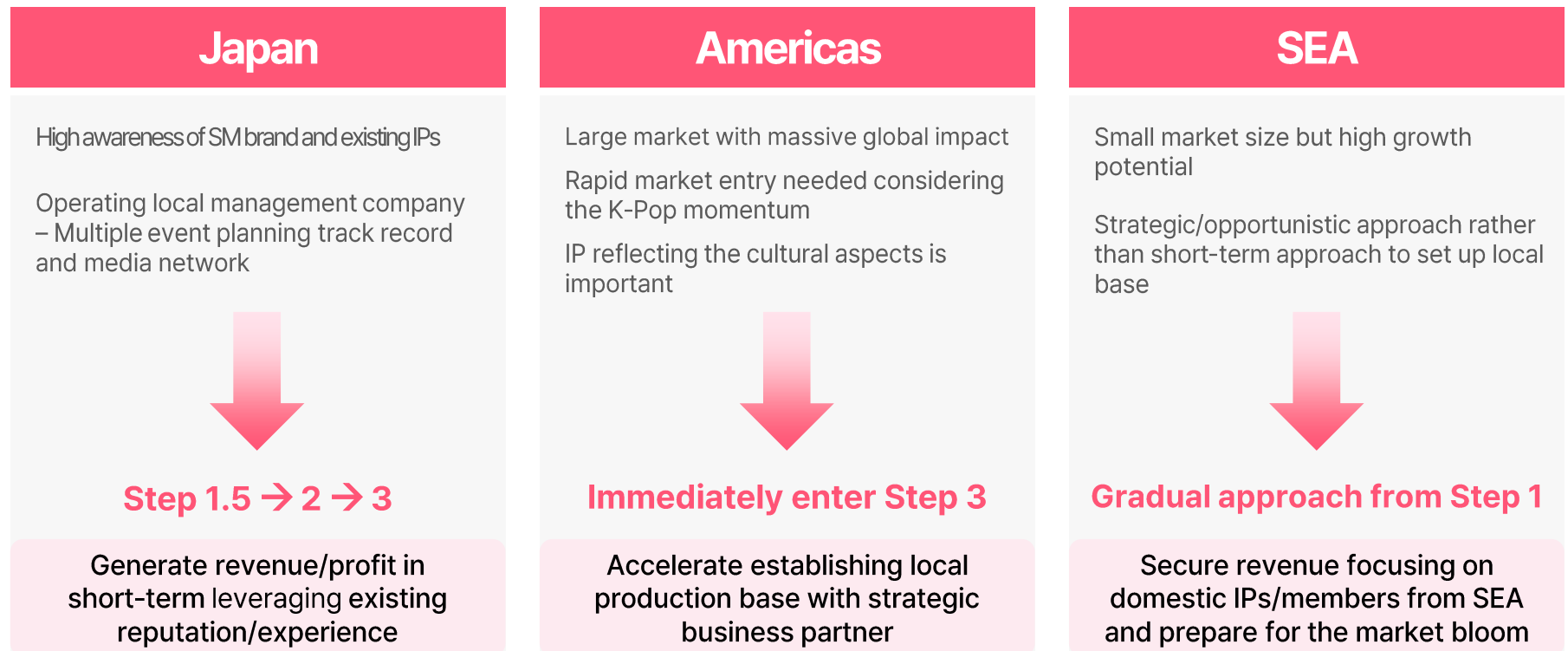


1. As of '22, apply '21 figure if '22 estimation is not available 2. Sum of 19 countries including Indonesia, Vietnam, Philippines, Thailand, etc. where export reached over USD 1000 3. Based on 45 countries in Europe/ME where export reached over USD 1000

3-step Global Business Expansion



Global Expansion Model considering Regional Characteristics and SM's Experience



1. Japan: Rapid Profit Generation Based on Existing Know-how

Rapid market entry and immediate generation of high profit is possible based on accumulated capabilities

High preference for SM Entertainment/Music

- High awareness of SM as the 1st generation entering the Japan market
- 150K seats in SM Town Concert 2022 in Tokyo were sold out

High acceptance of SM IP

- 60+ albums have been released in Japan until '23
- Culture Universe concept is widely accepted based on the mature animation market

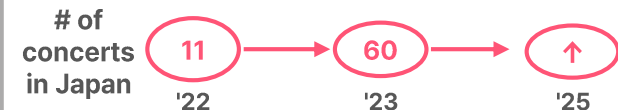
Knowhow in performance management

- Over 160 dome concerts in Japan since '11
- TVXQ 's single concert attracted over 1M fans

Can achieve maximum profit from existing IP concerts and establishment of SM JP production center within '23

Support
monetization
of existing IP

Immediately increase concert of existing IPs from '23



Establish
local
production
center

Turn SM Japan into a production center within '23

- Aggregate SM's business knowhow in Japan to establish entire casting/production/media promotion functions locally

Local
production of
IP

Make debut of Japanese groups with SM identity in '23 and '24

- 2H'23: NCT Tokyo (tentative)
- 2H'24: New Japan-based team

2. Americas: Instant Full Market Entry based on Debut of a New Group and Facilitated Commerce based on Joint Investment with a Strategic Partner

Must-go market for SM to become global no.1 and now is the right time for entry

1 market in size

- Global #1 with music revenue worth KRW 22T

Massive global impact

- 172 of Billboard Year-End Hot 100 singles enter Year-End Global Top 200¹

Rapid growth of K-Pop

- Right time for entry as growth of K-Pop album sales in US reached 78%²

High expandability of commercial areas incl. commerce

- Business potential not only in primary IP but also secondary IP businesses (MD, IP license, etc.)

Establish a US production center based on massive joint investment with a strategic partner

Establish
local
production
center

Establish a production center based on JV with a strategic partner

- Acquire a local management company for acceleration
- Execute local concert/promotion for global market entry of existing IPs

Local
production
of IP

Make debut of a US-based artist in 2H'24

- Emphasize "growth story" and "artistic quality" reflecting the characteristics of US fan culture in casting/training
- Make massive investment in concert/promotion to earn popularity in the early days

Review
Further
business
opportunities

Expand secondary IP business

- increase profit by reinforcing commerce experience of the local fans
- Launch the integrated fan platform in US market in full scale

1. As of '21/'22, 2. US K-Pop album export CAGR ('17-'22)

3. SEA: Gradual Entry Considering the Full Market Growth Timeline

Strategic/opportunistic approach rather than establishing a local base in short-term

High growth vs. market size

- Small monetizable market size but high growth, need to be prepared for the market growth

Market size¹
KRW 400B

Growth²
46%

Strong preference for SEA members in K-Pop group

Profit generation via commercial ads of SEA members

Make gradual entry focusing on existing IPs in short-term, establish a production center after '25

Support monetization of existing IP

Facilitate concerts/activities of IPs popular in SEA/members of local nationality from '23

- Operate local media/promotion center

Establish local base

Make debut of a local-based team consists mainly of SEA members in 2H'25

- Establish a year-round casting center to secure talented trainees, but production/management are mostly done domestically

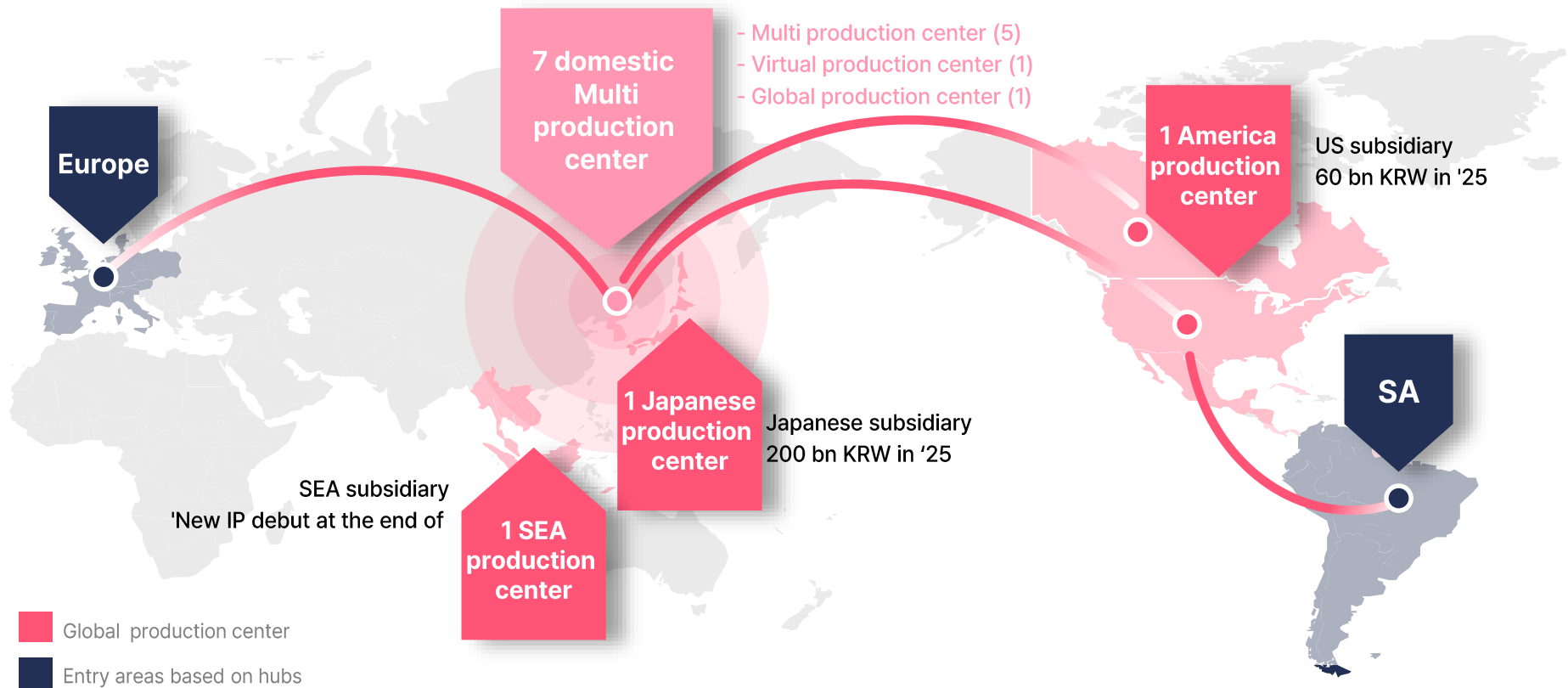
Turn local base into production center

Gradually turn the media/casting center into local production center after '25

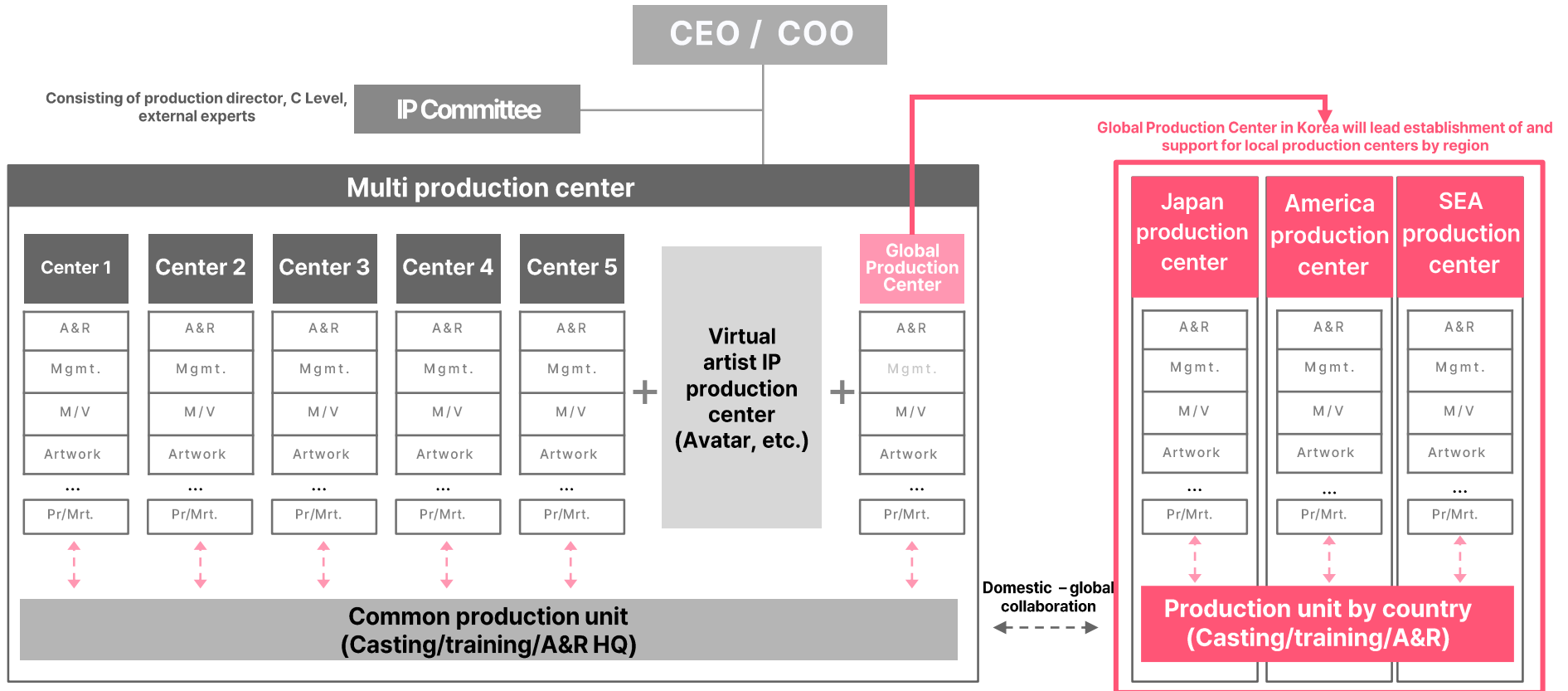
- Establish local production/management system including additional production functions when the full market growth becomes visible

1. Based on ASEAN 2021 album and sound source market, 2. Based on '17-'21 CAGR of K-Pop album export

Aiming additional 260 bn KRW revenue from 7 domestic multi production centers and 3 local production centers in '25

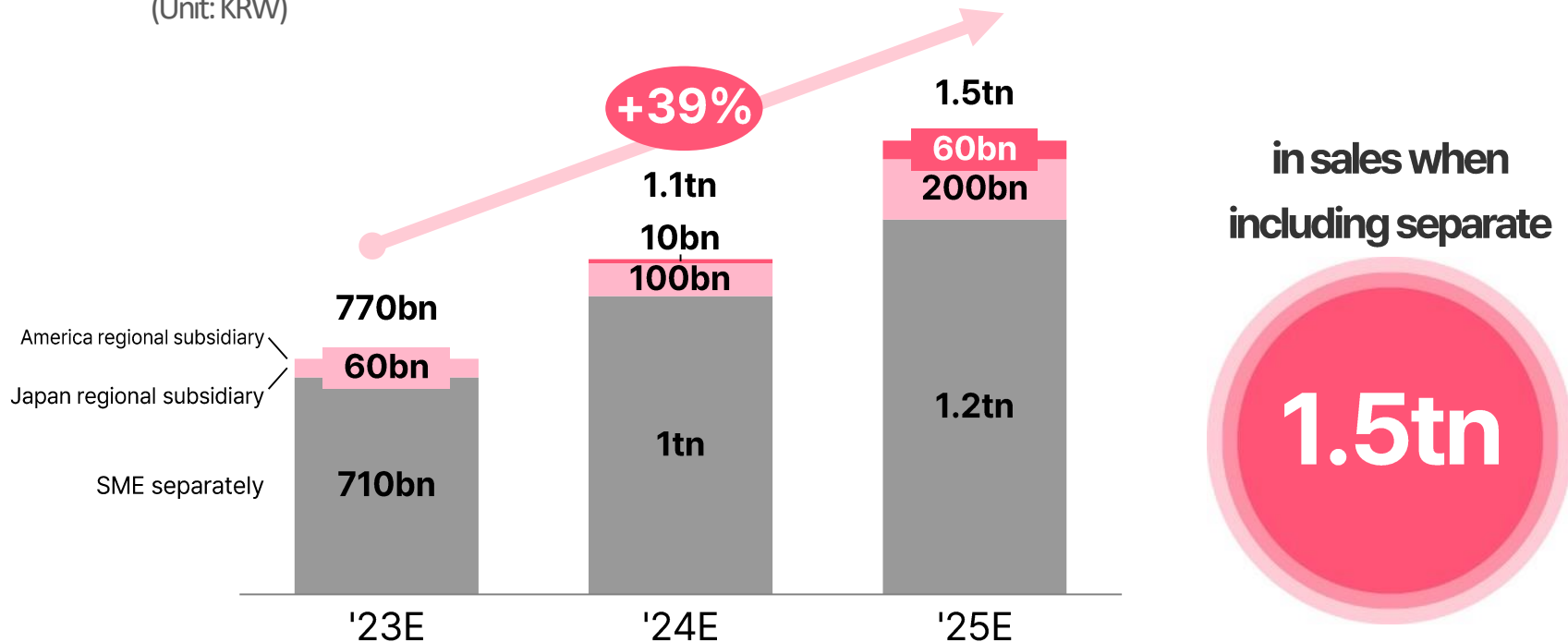


SM production center operation model in '25



Additional 260 bn in sales in '25 through global expansion with strategies customized to each country

(Unit: KRW)



Note: The impact of SEA local IP to have debut around the end of '25 is not reflected

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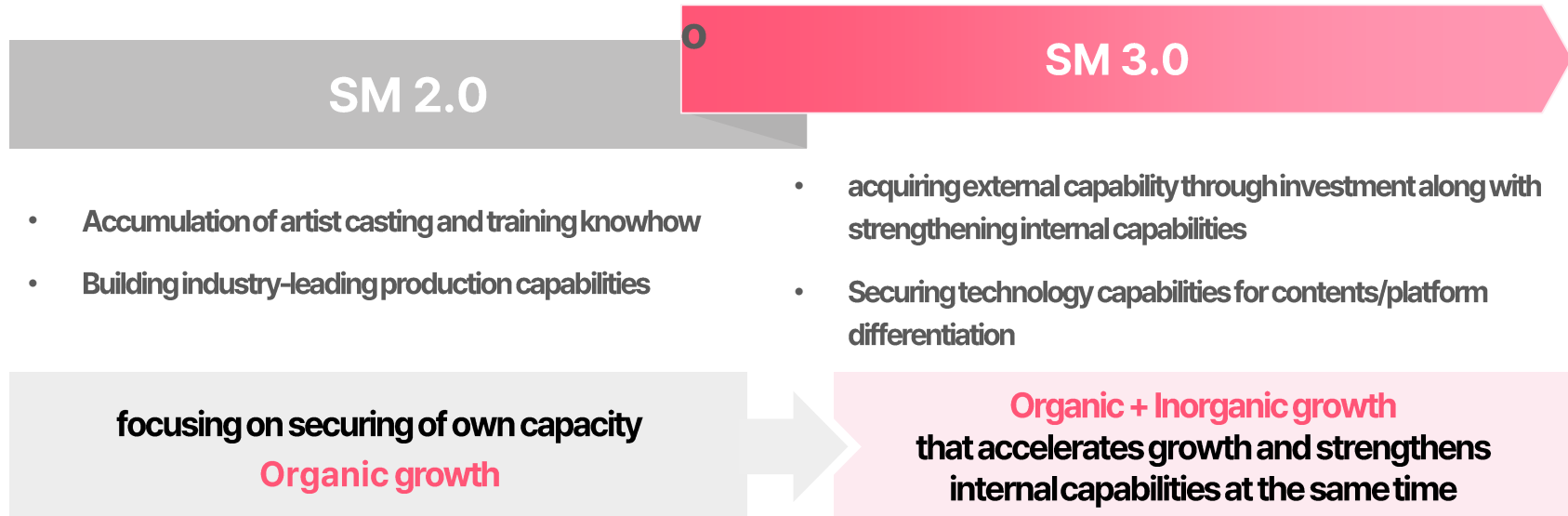
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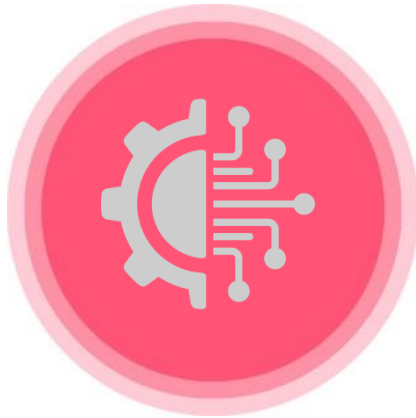
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[Investment strategy] Global Music Publishing, Label Acquisitions, Fandom Business, Investment in Metaverse, etc.

Investment in core capabilities is the essential foundation for SM 3.0



Investment further gained strategic importance due to recent changes in entertainment market environment



Convergence of technology and entertainment

- ✓ Combining platform and metaverse/AI technology with entertainment



Recovery of entertainment industry moving into an endemic

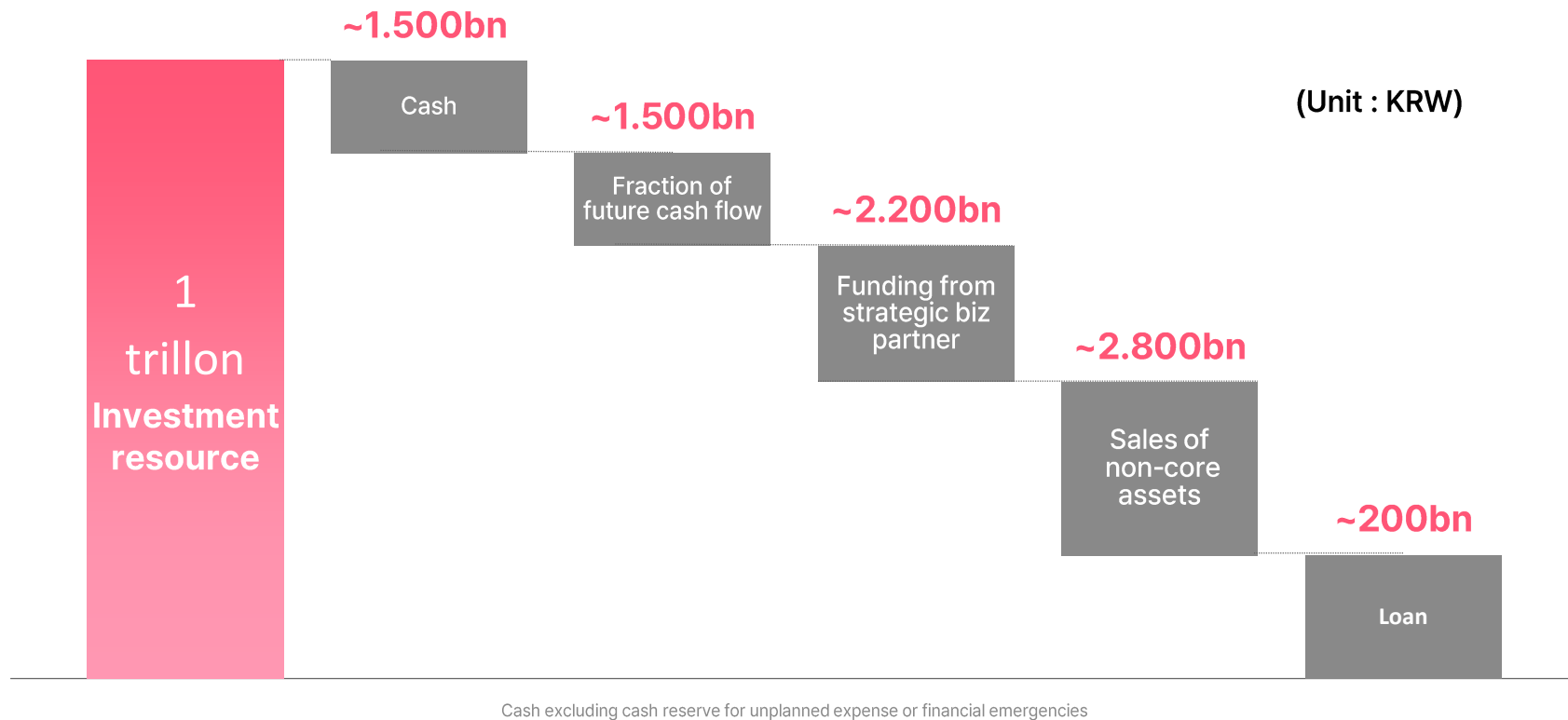
- ✓ Normalization of offline performance biz
- ✓ K-Pop's global expansion



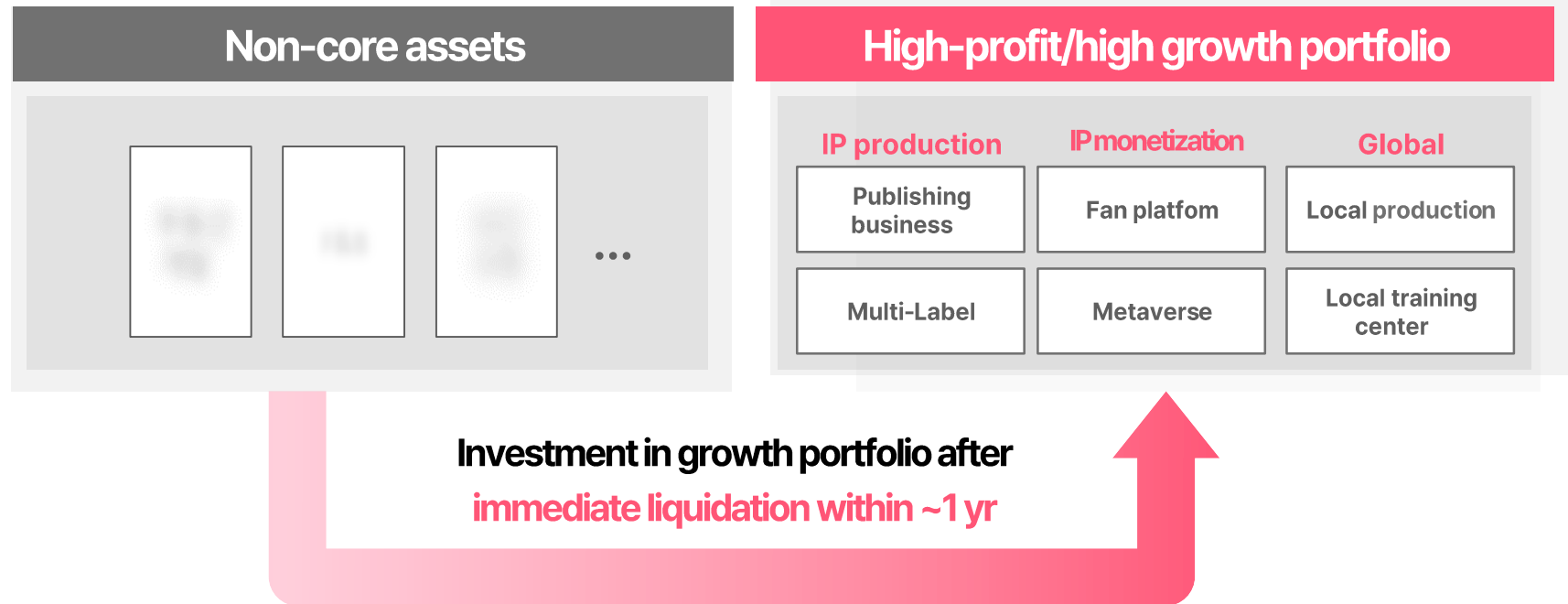
Optimal market timing for investment due to conservative valuation trend

- ✓ Stabilization of enterprise value that has been overvalued

Securing KRW 1 trillion for investment in order to seize market opportunities through timely investment



Securing investment resources, unrelated assets with limited contribution to profits to be liquidated

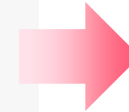


Securing balance between short-term and mid to long-term investment

Track 1

Area of securing short-term biz capacity and performance

- Focusing on businesses that can immediately contribute to profits within 1 year
- Quickly internalizing core capabilities related to main biz



Track 2

Area of securing mid-/long-term growth engine

- Aiming at revenue/profit generation within three years
- Investment in new technology/overseas production centers, etc. for securing mid to long-term growth engines

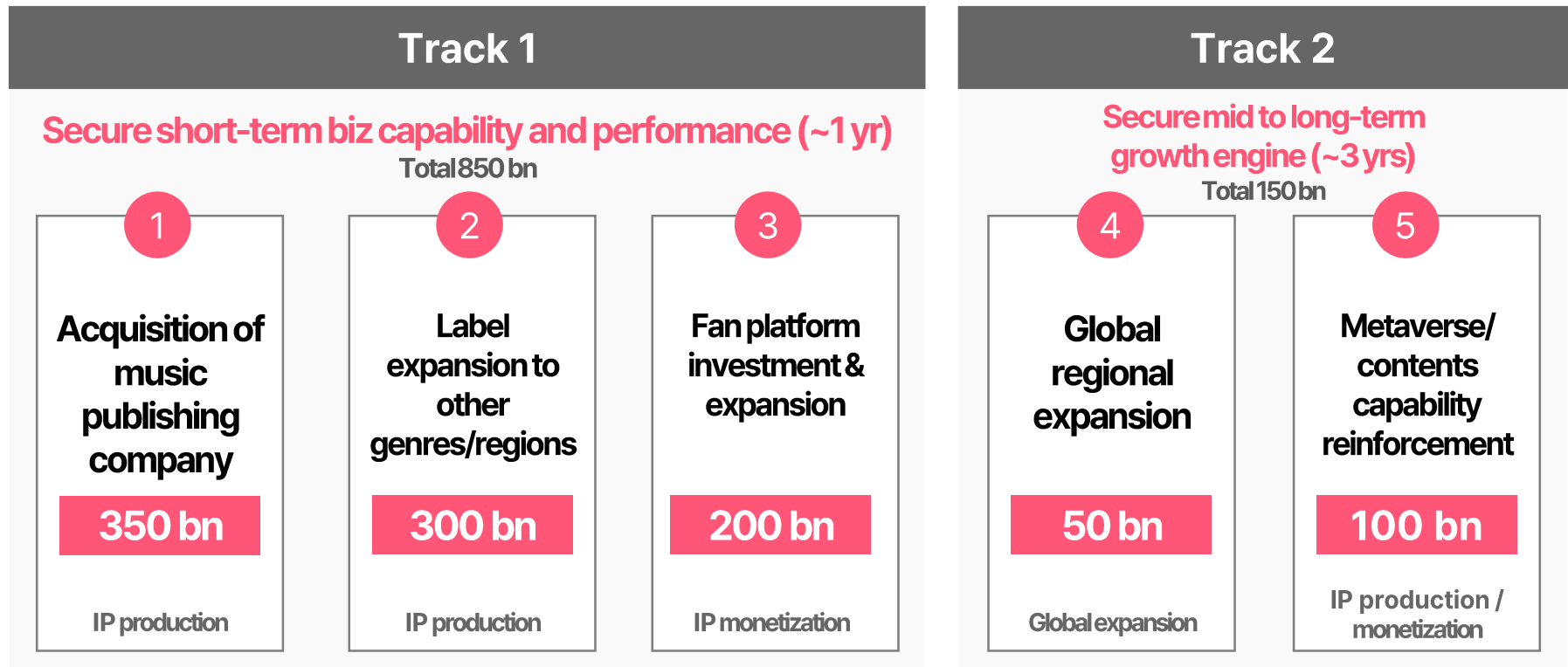


Maximization of shareholder
value through keeping balance
between

'Pursuit of short-term
operating profit'
&
'mid to long-term
growth engine'

Five key pillars of SM 3.0 investment

(Unit: KRW)



Value allocation is partially subject to changes based on strategic decision at the time of investment

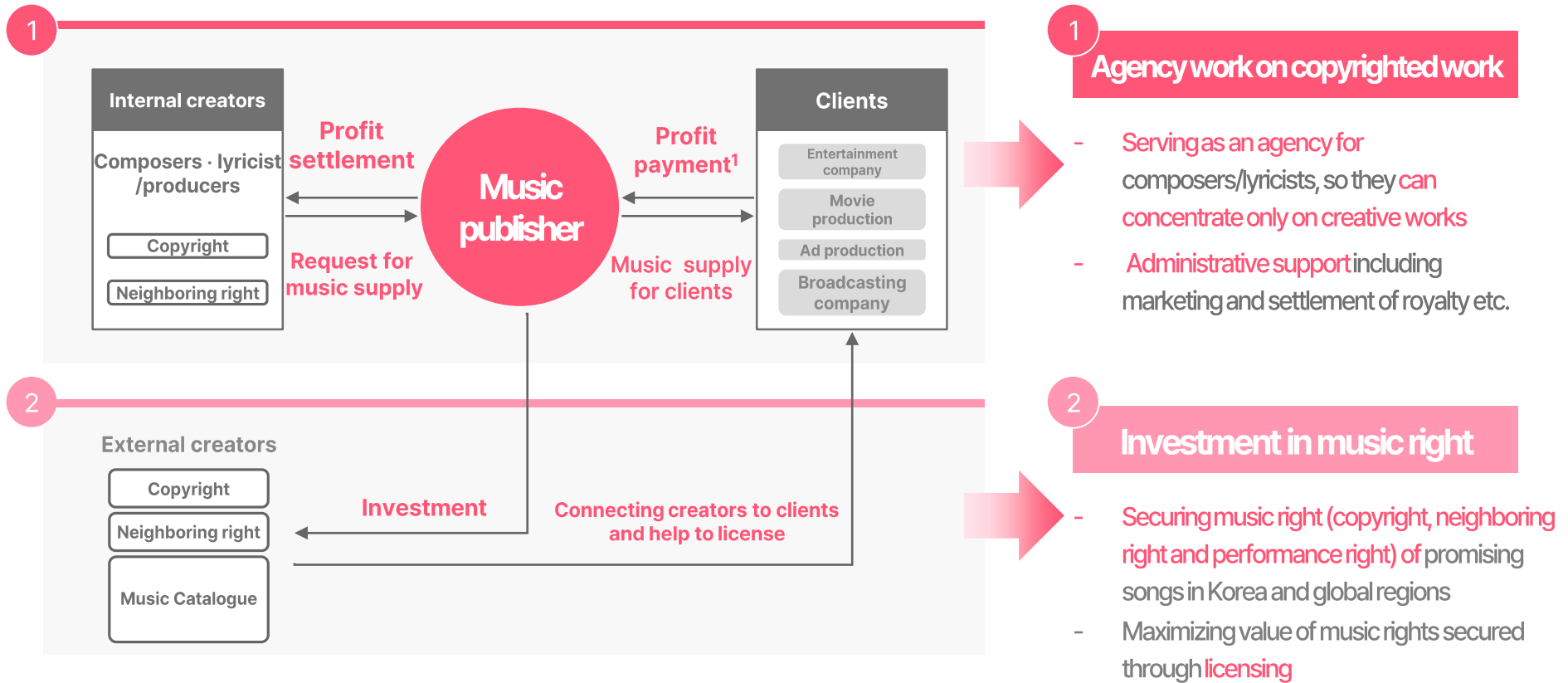
[Track 1] IP production capability build-up and fan platform advancement

		Investment Size (KRW)
1	Acquisition of music publishing company <ul style="list-style-type: none"> - Establishing music publishing-specialized subsidiary <ul style="list-style-type: none"> - Acquiring publishing companies owning a pool of composers/lyricists with creative diversity - Supporting organic growth by internally training composers/lyricists along with inorganic investment - Maximizing value through investing in Korean/overseas music rights as additional source of profit - Maximizing profitability based on operational efficiency improvement through building music publishing solution 	350 bn
2	Label portfolio expansion <ul style="list-style-type: none"> - Acquiring Korean/overseas labels that can generate synergy with SM <ul style="list-style-type: none"> - Securing local network, expanding genres and improving producing capabilities - In case of Korea, investing with focus on labels with high potential for success in global market through utilizing SM's know-how 	300 bn
3	Integrated fan platform launching <ul style="list-style-type: none"> - Building integrated fan platform focusing on advanced fan experience <ul style="list-style-type: none"> - Launching platform with integrated/advanced community, commerce, contents and online concert functions - Generating additional value based on platform data analysis through reinforcing data team 	200 bn

While the integrated fan platform is included also in Track 2, it is overall explained in Track 1

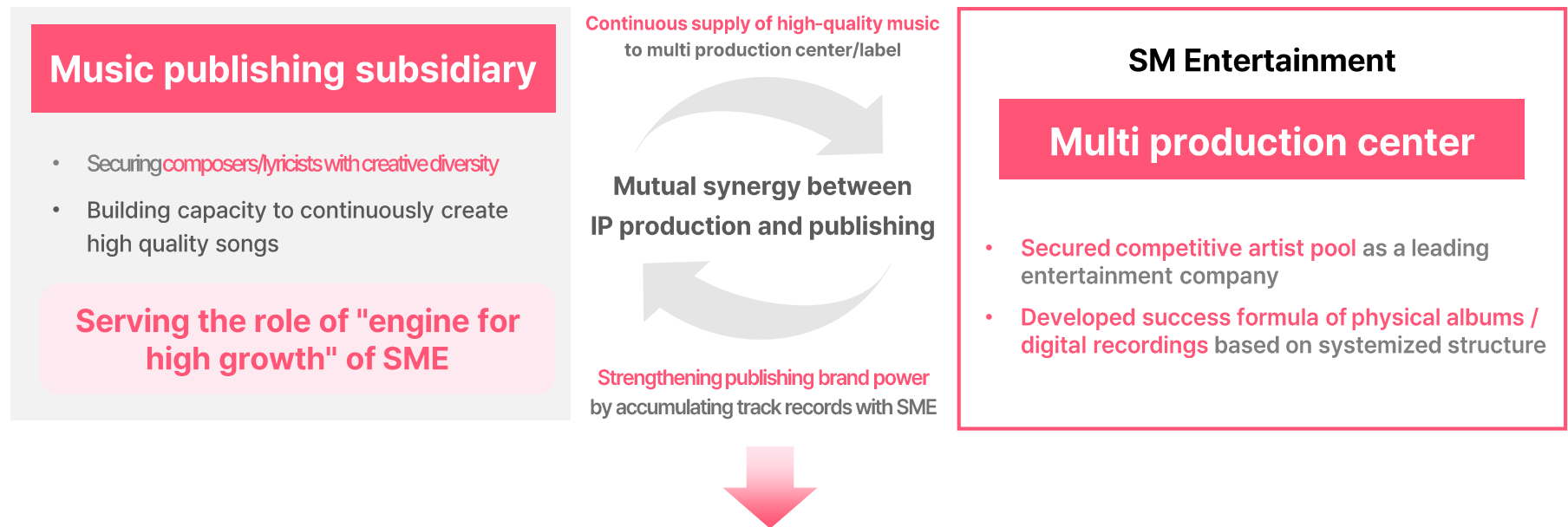
1 Acquisition of music publishing company

Music publishing business model overview



1 Acquisition of music publishing company

Music publishing business as the engine for SM's high growth



Leap forward as a leading company in the global market of \$10B¹ through synergy with K-pop leading company, SM

1. Global publishing market size – calculated based on the market share of the three major global publishers (UMG, Sony, Warner Chappell) as 60%

1 Acquisition of music publishing company

Music publishing companies are recording high financial performances backed by growth in entertainment industry

Sales (KRW)

Operating margin (%)

Large sized global publisher

Mid-sized global publisher

Region/genre-specific publisher³

Universal Music¹



1.3 tn

23.5%

Warner Chappell²



1.2 tn

14.5%

EMI



0.29 tn

18.3%

Budde Music



19 bn

21.1%

Sony Music¹



2.1 tn

20.0%⁴

BMG Rights



1 tn

20.0%

Reservoir Media



0.14 tn

17.6%

Concord Music



5 bn

16.0%

1. Business unit sales estimate based on public announcement in '22 1H 2. Sales in '21;

3. Unlisted company. Sales of '22 estimated based on Orbis database (financial DB for unlisted companies); 4. Operating margin of music business unit

Accelerating SM 3.0 multi label system establishment

	Global (Reviewing America with priority)	Korea
Investment size (KRW)	~200 bn Reviewing 3~5 companies	~100 bn Reviewing 5~7 companies
Key matters for review	<p>Securing American local network</p> <ul style="list-style-type: none"> • Securing the bridge for SM artists to enter American market through leveraging local resources <p>Genre expansion</p> <ul style="list-style-type: none"> • Reviewing companies appropriate for SM's genre spectrum expansion such as R&B and hip hop, etc. • Promoting diversification of SM fan segments <p>Enhancing production capabilities</p> <ul style="list-style-type: none"> • Securing producers with global awareness 	<p>Growth potential in global market</p> <ul style="list-style-type: none"> • Genre expansion possibilities • Securing production capabilities • Supporting global entry of new label artists through leveraging SM's know-how

[Track 2] Investment in new region and technologies for continuous growth

		Investment Size (KRW)
4	Global expansion Building regional production centers and launching new IPs in Japan, Americas, SEA <ul style="list-style-type: none">- Building-up local casting/training center and management infrastructure in Japan- Establishing new subsidiary in America through JV with strategic partner and launching global audition- Establishing local production centers in '25, starting from establishment of media/PR hub in SEA	50 bn
5	Strengthening capabilities for Metaverse and v-contents Reinforcing capabilities of virtual IP through investment in "Studio KWANGYA" <ul style="list-style-type: none">- Investment for JV establishment with meta human technology company- Investment in VFX and AI audio company to embody visual/audio of virtual artists- Investment in post-production to upgrade the final completion of contents	100 bn

1tn KRW
investment

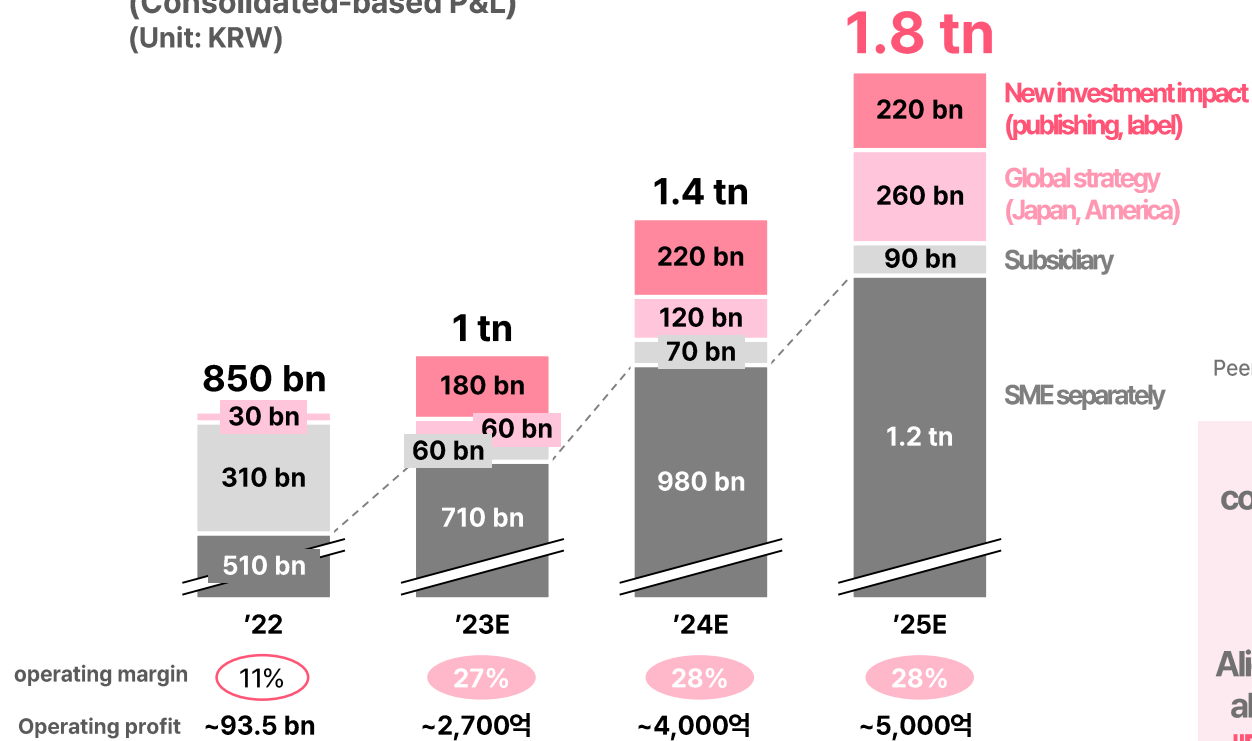
1. Securing core capabilities to achieve the target sales of KRW 1.2 tn (in '25 SME separately)
2. Generating additional KRW 480 bn in sales & KRW 80 bn in operating profit (in '25 SME consolidated)

	Essential requirement to achieve separate-based target	Additional consolidated performance in '25	
		Sales	Operating profit
① Acquisition of music publishing company ¹	Stable supply of songs for multi production center/label operation	130 bn	30 bn
② Label acquisition ²	Expanding sales of album/digital music based on collaboration with labels	90 bn	20 bn
③ Investment in fan platform	Maximizing commerce transaction size and profit through integrated fan platform	N/A (biz operated internally in SME)	
④ Investment for global expansion	Generating global business sales by establishing Global regional production centers	260 bn	30 bn
⑤ Investment in metaverse & v-contents	Investment in technology for virtual artist IP and virtual contents production	N/A	(0.5 bn)
		480 bn	80 bn

1. Assuming acquisition of one company in '23 and one in '24; 2. Assuming completion of investment in '23

Becoming No. 1 in the K-Pop industry through SM 3.0

(Consolidated-based P&L)
(Unit: KRW)



Stock price target in '25
360K KRW

c. 25% discount from
Peer LTM P/EBIT 25.0x and excluding impact of
shareholder return to be announced

Linking **50%+** of executive
compensation with SM 3.0 target
stock price and performance
achievement

Aligning executives' interests with
all shareholders and performing
"Full Corporate Responsibility"

Thank you

