

February 2023

ENG.

SM 3.0:

IP Monetization Strategy



SM 3.0, the Future : 4 Key Growth Strategies

'23 ~

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

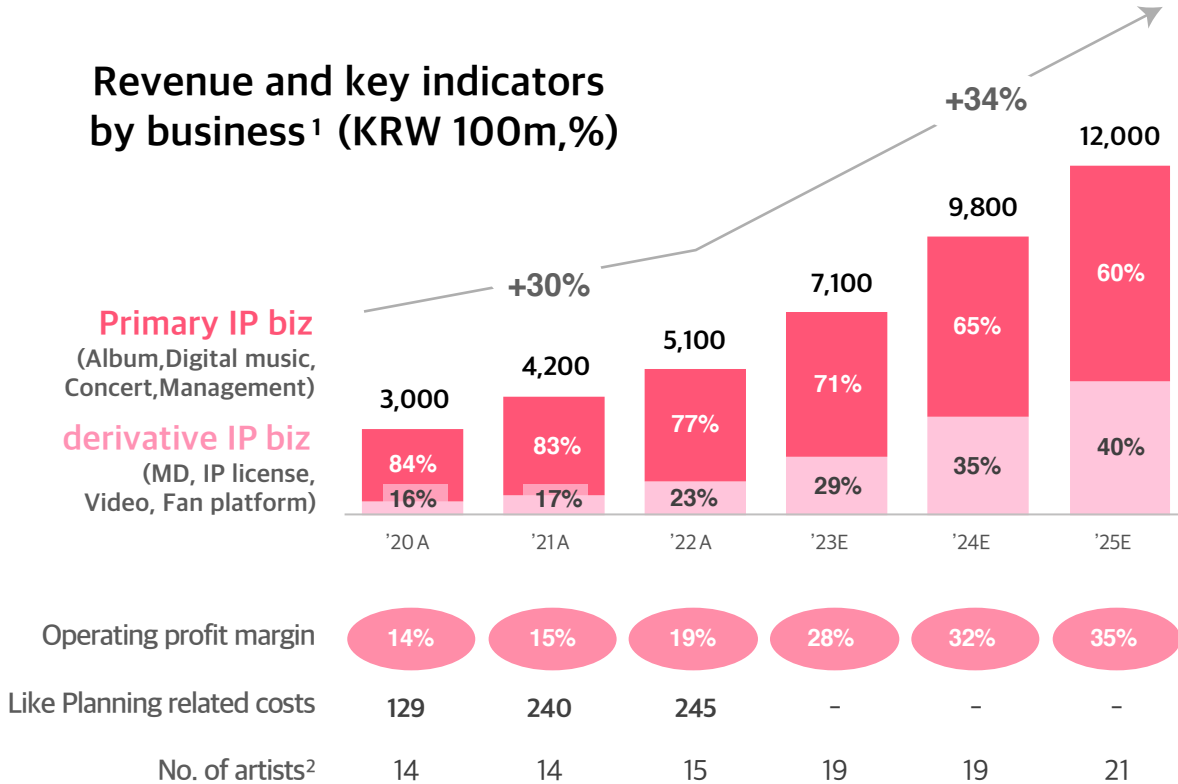
[Global Strategy] Global Expansion (Japan, US, South-East Asia, etc.)

4

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

SM Entertainment Bears Additional High Growth Potential

Revenue and key indicators by business¹ (KRW 100m,%)



Why SM is confident about growth

✓ Immediately resolve the current issues with SM 2.0

- Termination of contract with Like Planning and internalize key businesses

✓ [Primary IP biz] Expand IP via Multi Production Center

- Ensure timely debut of +2 teams per year with guaranteed quality by expanding producing capacity

✓ [Derivative IP biz] Expand highly profitable derivative IP

- Expand derivative IP (incl. character), commercialize video content, internalize and integrate fan platform, etc.

1. Based on SM Entertainment's standalone figures; Rounded up to the nearest 10th, therefore may slightly differ from those published by IR; other revenues (e.g., DM Beijing) excluded;

2. Based on the number IPs from active artists who release albums/digital music

Immediate Improvement in Operating Profit by Overcoming the Structural Limitations of SM 2.0

Impact of improvement will be higher under SM 3.0

✓ Termination of contract with Like Planning

- Discontinue to pay royalty at 6% of revenue
- Discontinue to pay 3% of mgmt. revenue during '23 to '25
- Discontinue to pay 6% of album and digital music revenue through '92

✓ Discontinuation of intra - group transaction with related companies

- Internalize the MD production/distribution function previously handled by SM Brand Marketing
- Internalize the concert/live performance planning function previously handled by Dream Maker, and contract companies with regional expertise

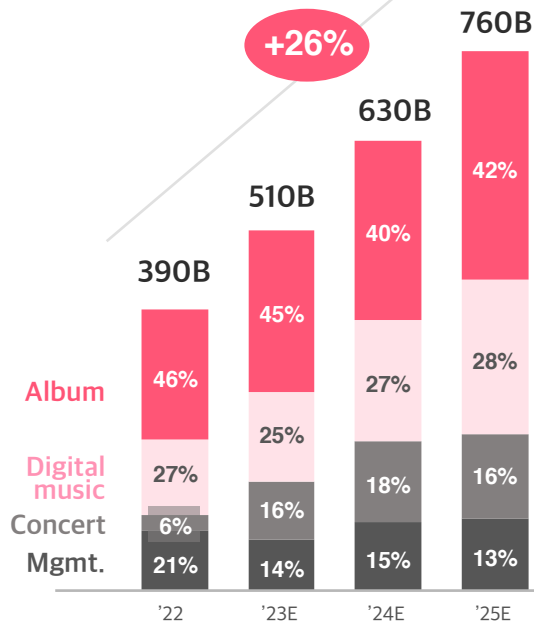
Impact of improvement based on '22 business results

Revenue	Operating profit
(Unchanged)	KRW ~ 25B
KRW ~ 30B	KRW ~ 6B
KRW ~ 30B additional revenue	KRW ~ 31B additional profit

Increase of revenue/operating profit through Multi Production Center



Target revenue of primary IP business



Key revenue growth drivers

	'22	'25
Number of artist IPs ¹	15	21+
Number of album releases	31	40+
Album sales volume	14M	27M+
Number of concerts ²	80	400+

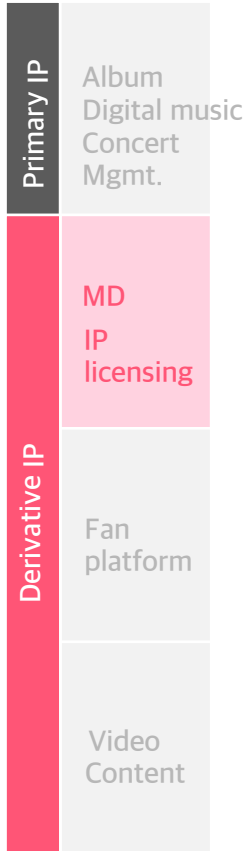
20+ concerts per artist

Key levers for profitability improvement

- Increase share of digital music business
- Develop a systematic production process to minimize inefficiencies such as rework
- Reduce air logistics costs incurred by album release delays

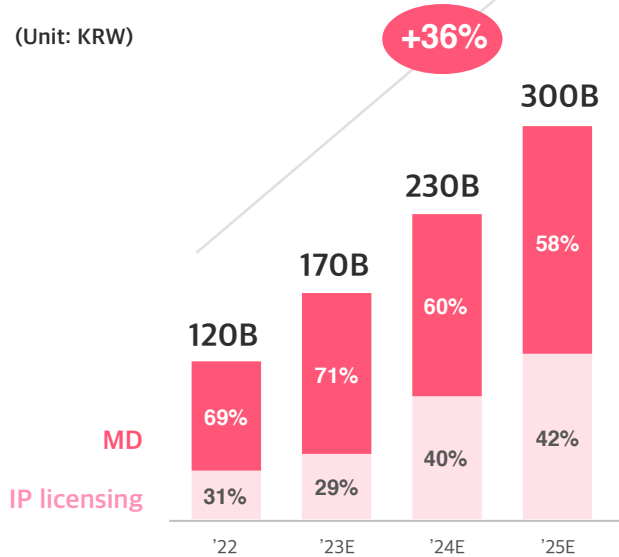
Expansion of High-Profitability Derivative IP and Strengthening of Distribution Capability

Secure stable profit based on long-term licensing contracts, rather than one-off events



Revenue outlook of MD/IP licensing

(Unit: KRW)



Includes impact of SM BM internalization after '23

Expansion of derivativ IP and business development focusing on characters/SMCU

Artist characters

Production and monetization of artists character IP owned by SM

- Align with artist activities incl. albums/concerts
- Develop businesses such as advertisements after securing each character's standalone IP competitiveness

SMCU

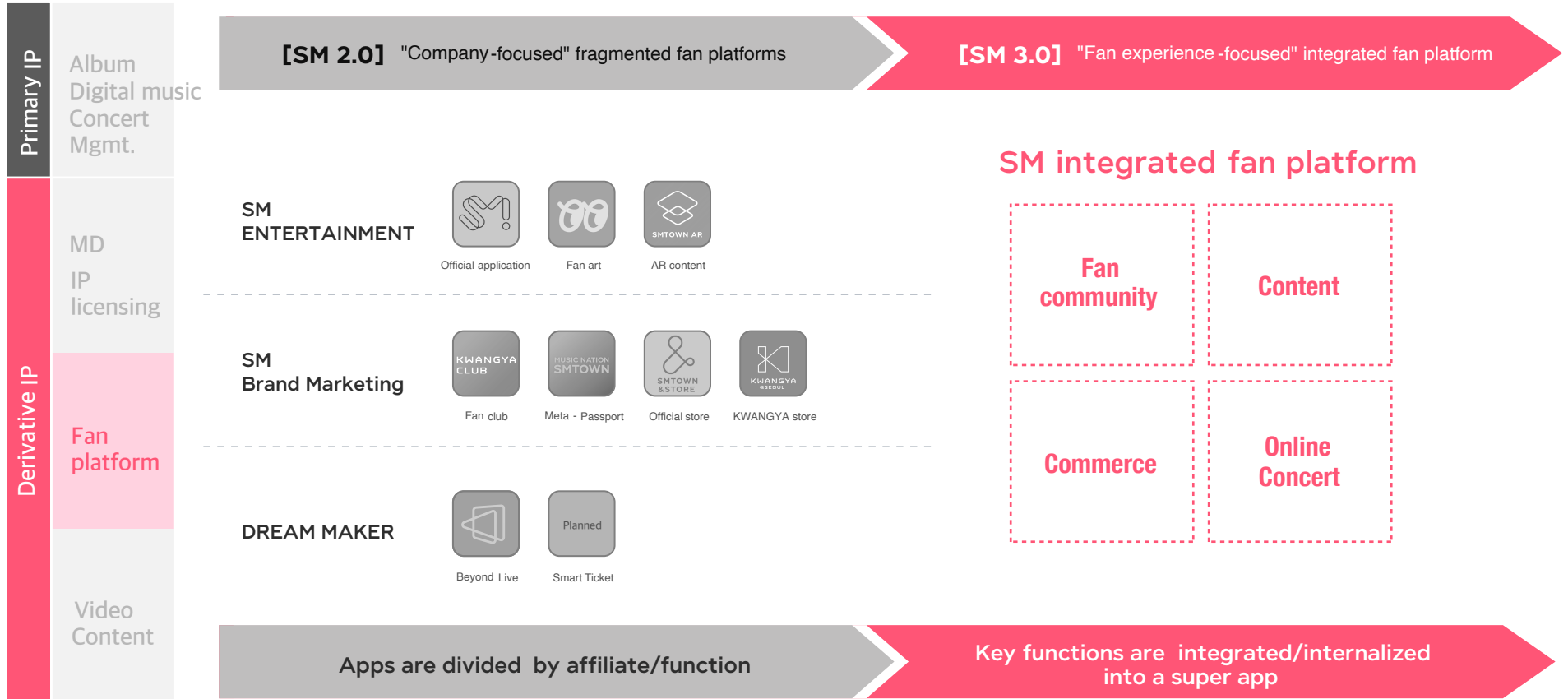
Production and monetization of "SMCU content"

- Drive monetization through production of various contents such as webtoons, webnovels, videos

Broader global coverage by leveraging global licensing partners and distribution platforms

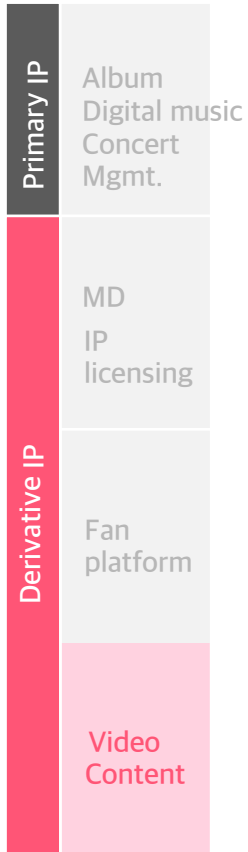
Establish special organizations in key regions such as US, Europe, Japan and manage IP distribution

"Fan platform" integration/internalization

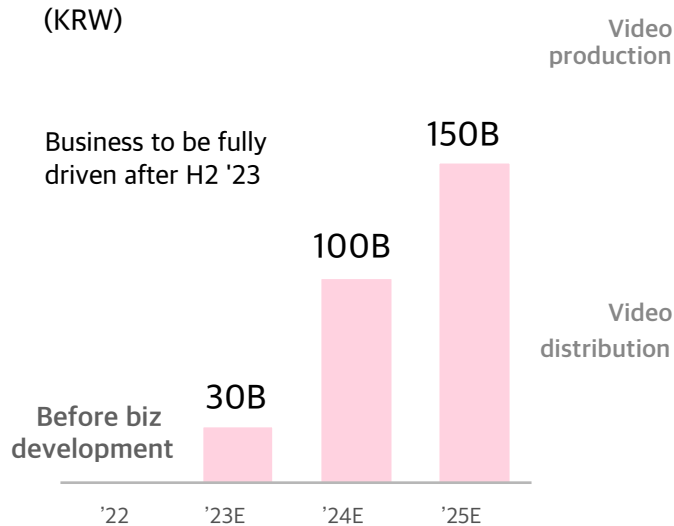


Establishment of a video content - dedicated organization and a systematic production - distribution system

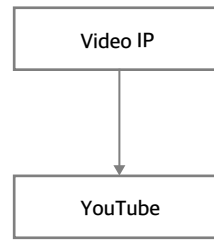
Enhance content profitability by assigning separate P&L responsibilities to video content-dedicated organizations



Revenue outlook of Video content

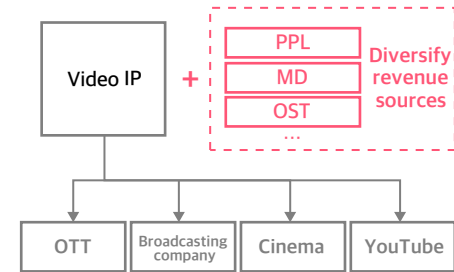


- Fragmented across multiple organizations
- No separate P&L
- Mostly new media production staff



Produce and distribute IP on YouTube without monetization planning

- Newly established "Video IP Business Center"
- Separate P&L
- Recruited key production staff

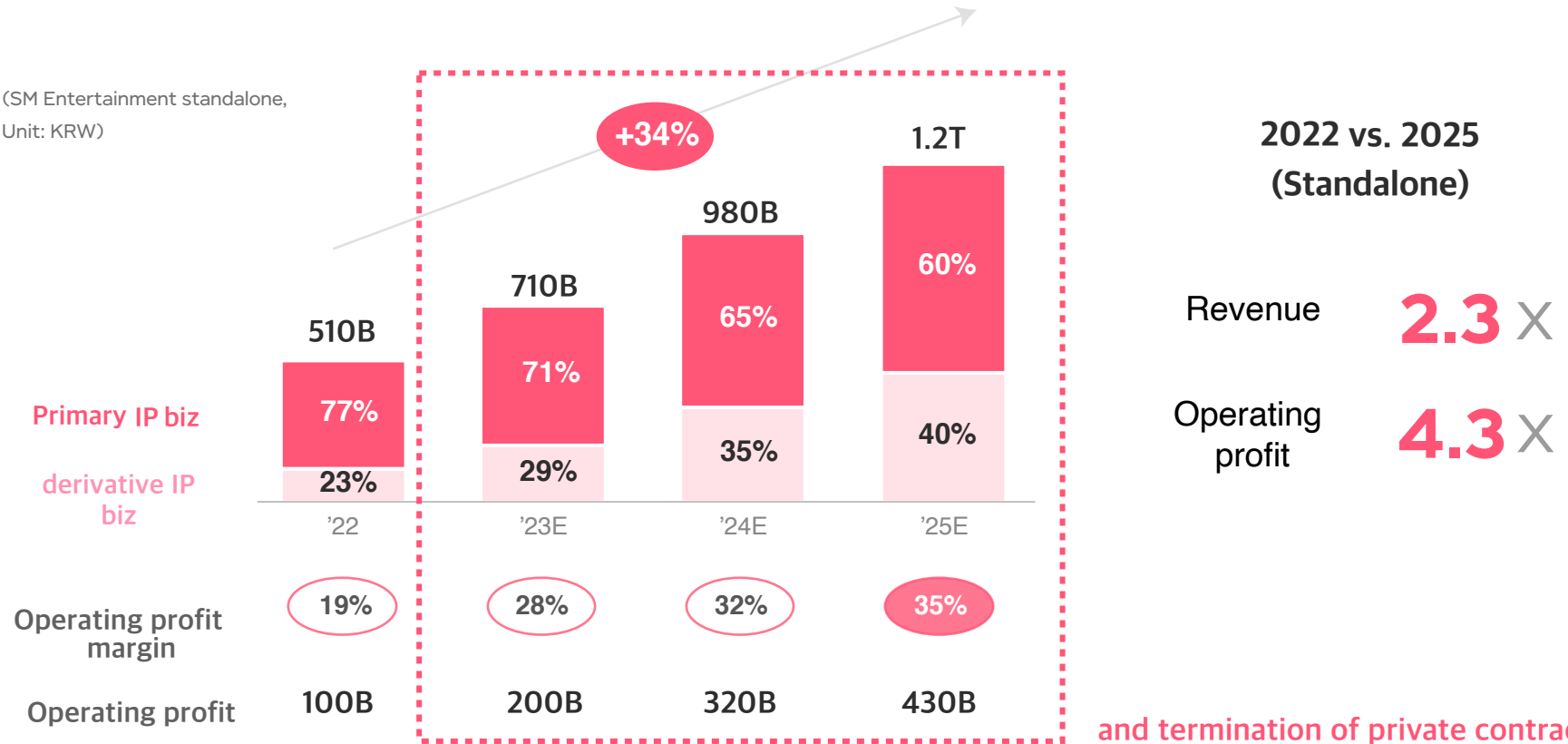


Pre - plan IP and diversify distribution channels, considering monetization (PPL, MD, OST, etc.)

SM will become an undisputed leader in K-pop market by 2025

Consolidated performance targets of SM Group to be disclosed later

(SM Entertainment standalone,
Unit: KRW)



Presentation plans

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[SM 3.0 IP Strategy] Multi 'Production Center/Label' System

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The reason why SM is against HYBE's hostile takeover

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2022 Earnings Release

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[SM 3.0 business strategy] IP monetization strategy incl. performance targets (Standalone)

Planned

[SM 3.0 global strategy] Global expansion (Japan, US, SEA, etc.)

[SM 3.0 investment strategy] Global music publishing, label acquisitions, fandom business, investment in metaverse, etc. incl. Group's business performance and corporate value targets

End of Presentation