

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.)

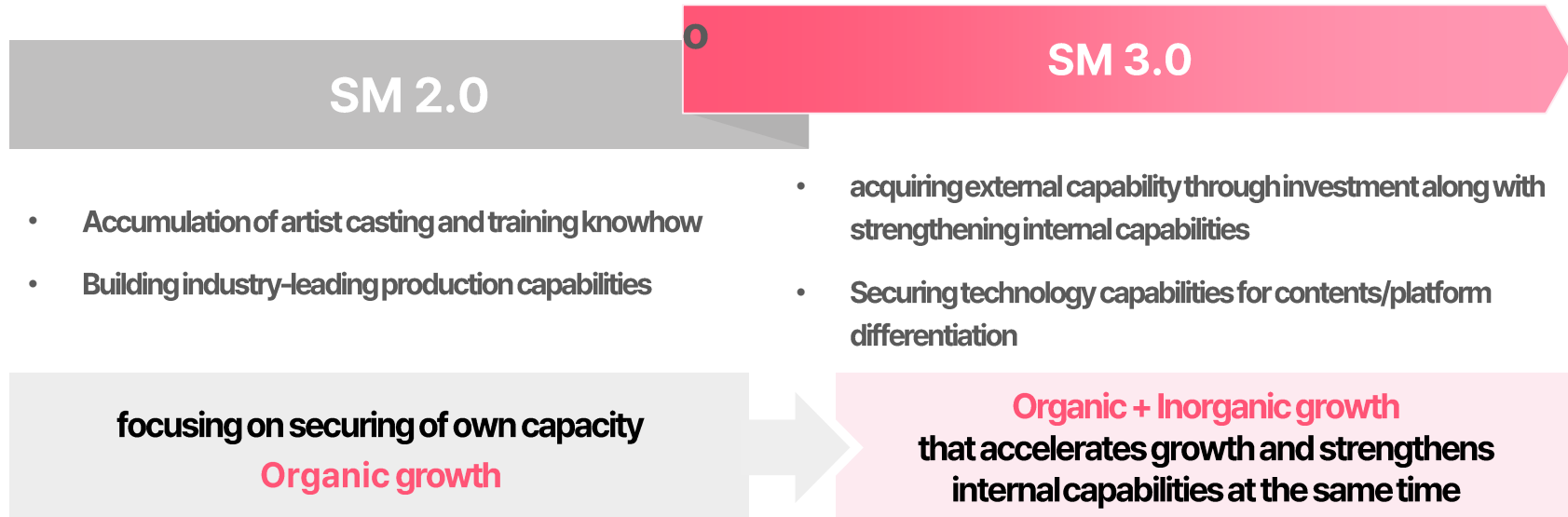
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[Global strategy] Global expansion (Japan, US, SEA, etc.)

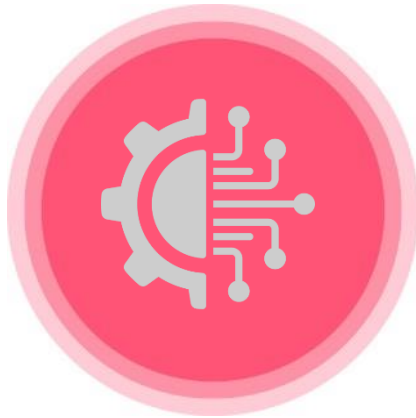
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[Investment strategy] Global Music Publishing, Label Acquisitions, Fandom Business, Investment in Metaverse, etc.

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

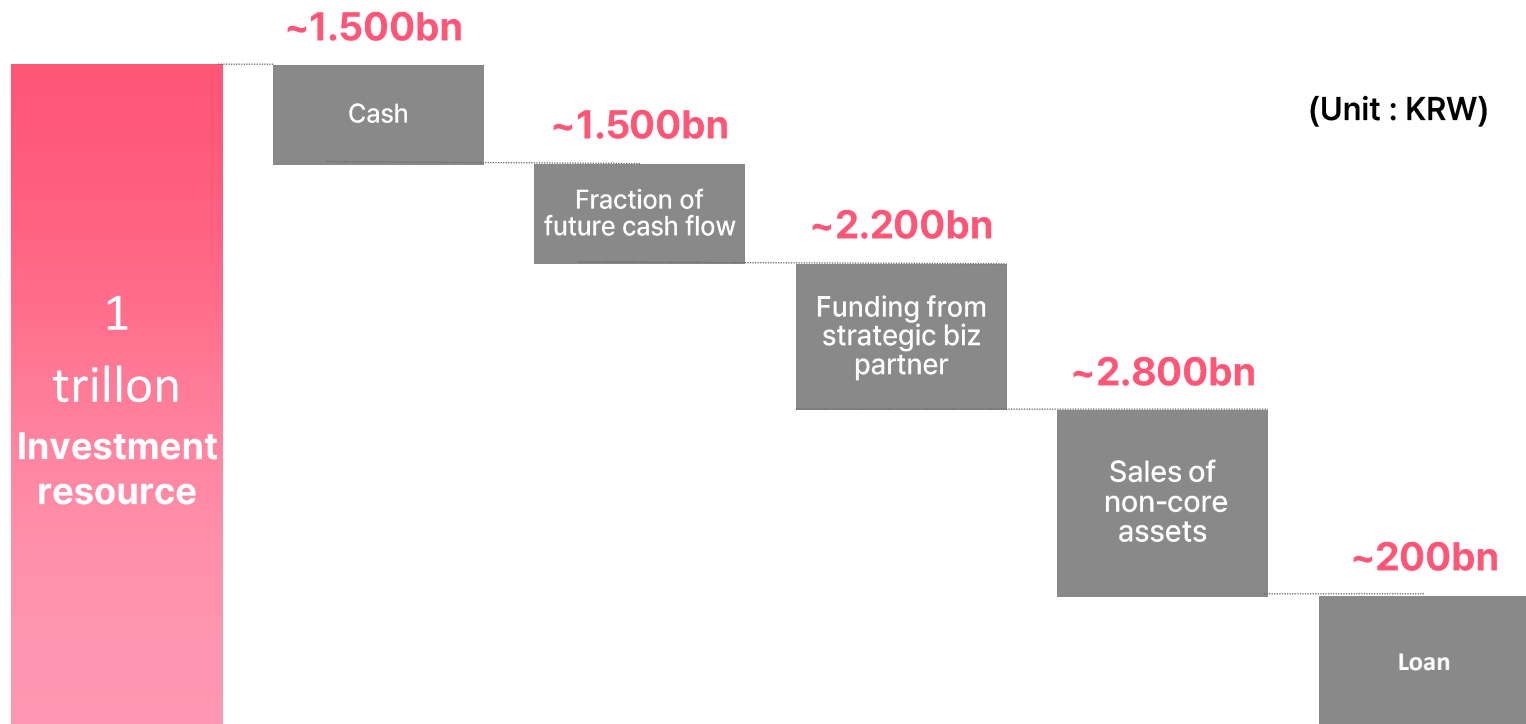
- ✓ Normalization of offline performance biz
- ✓ K-Pop's global expansion



Optimal market timing for investment due to conservative valuation trend

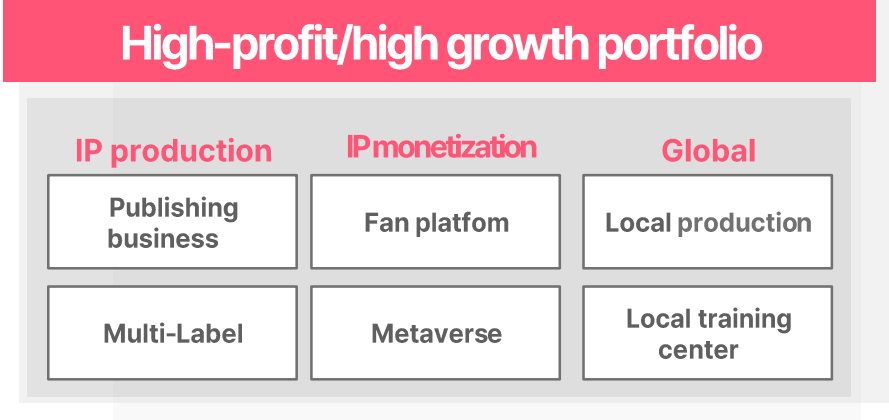
- ✓ Stabilization of enterprise value that has been overvalued

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



Cash excluding cash reserve for unplanned expense or financial emergencies

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

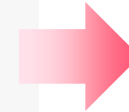


Securing balance between short-term and mid to long-term investment

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



Maximization of shareholder value through keeping balance between

'Pursuit of short-term operating profit' &

'mid to long-term growth engine'

Track 2

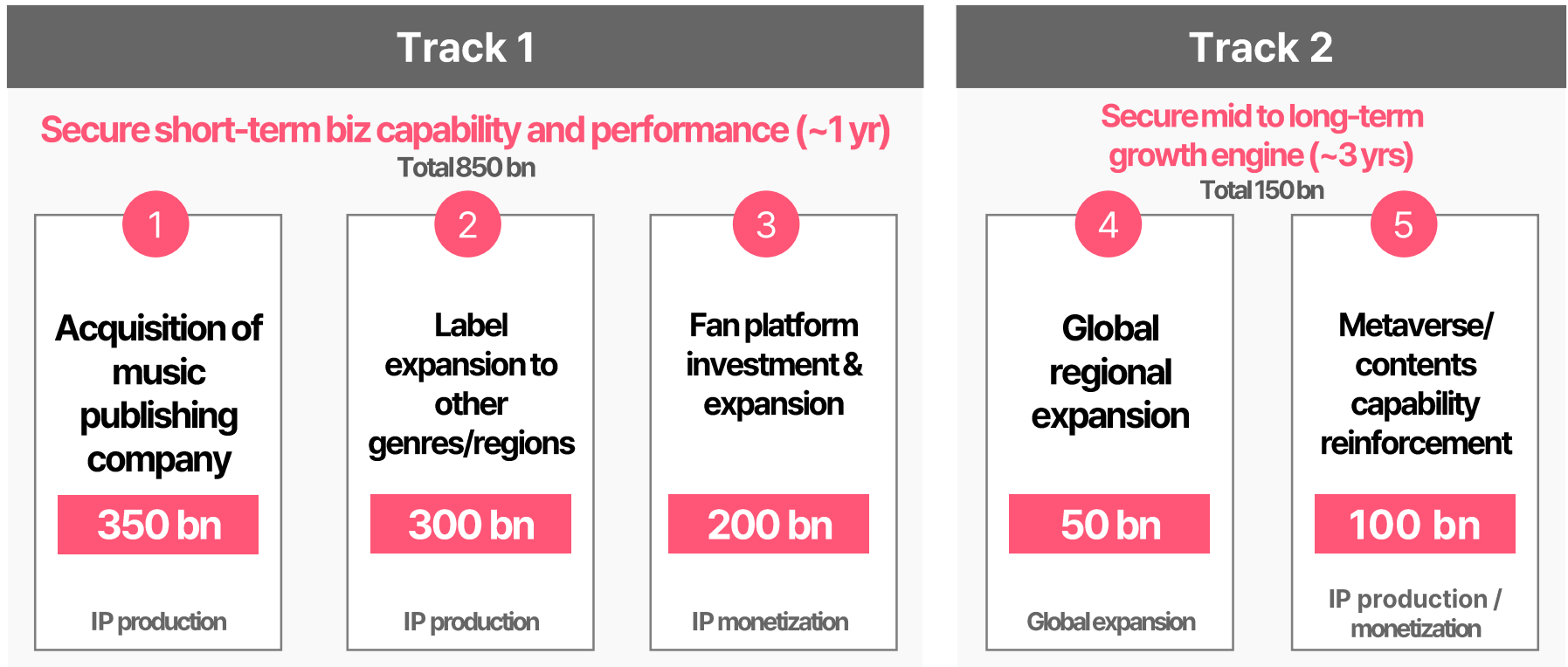
Area of securing mid-/long-term growth engine

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



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

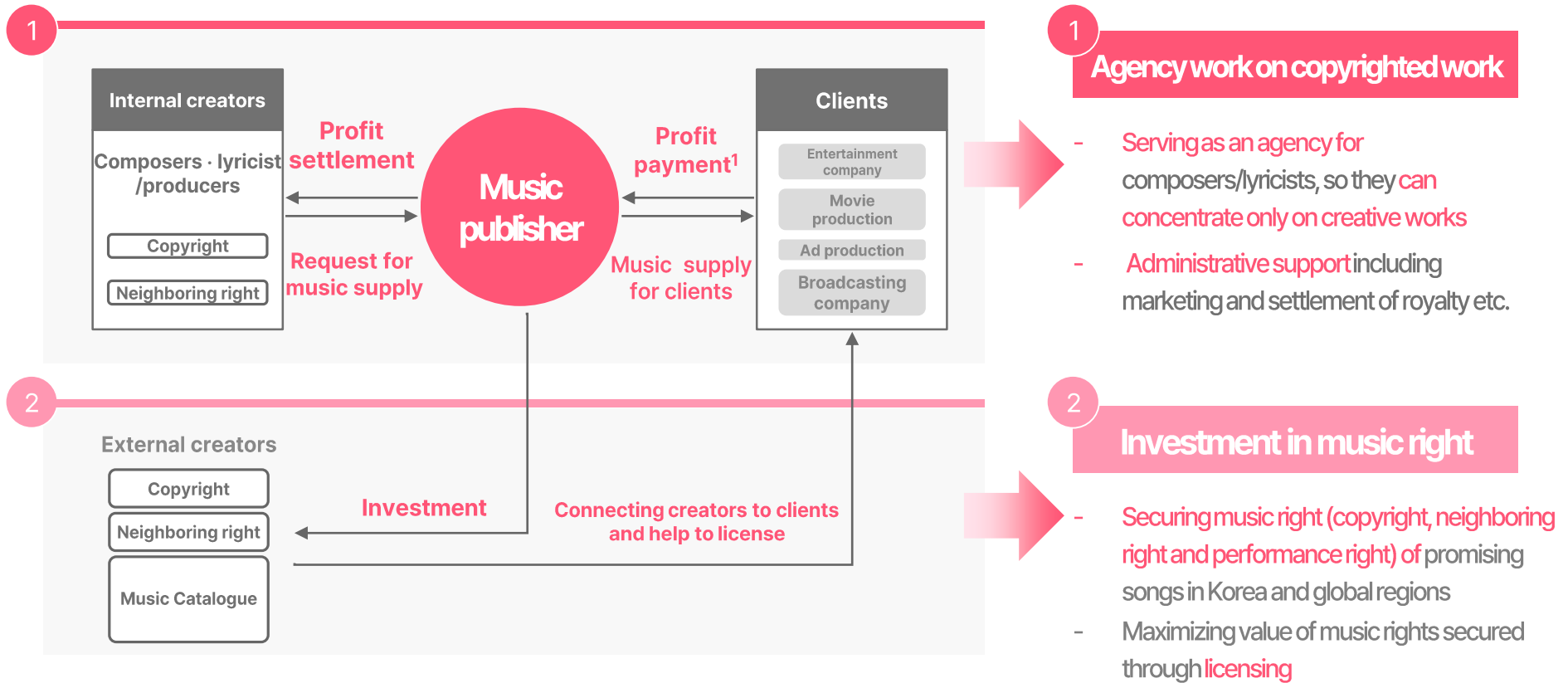
[Track 1] IP production capability build-up and fan platform advancement

		Investment Size (KRW)	
1	Acquisition of music publishing company	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	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	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. While simplified in the above diagram, the fees for using music is paid by clients to Copyright Association who then delivers the fee to publishers

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

Company	Sales (KRW)	Operating margin (%)
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)	<p>~200 bn Reviewing 3~5 companies</p>	<p>~100 bn Reviewing 5~7 companies</p>
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

- 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"

- 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

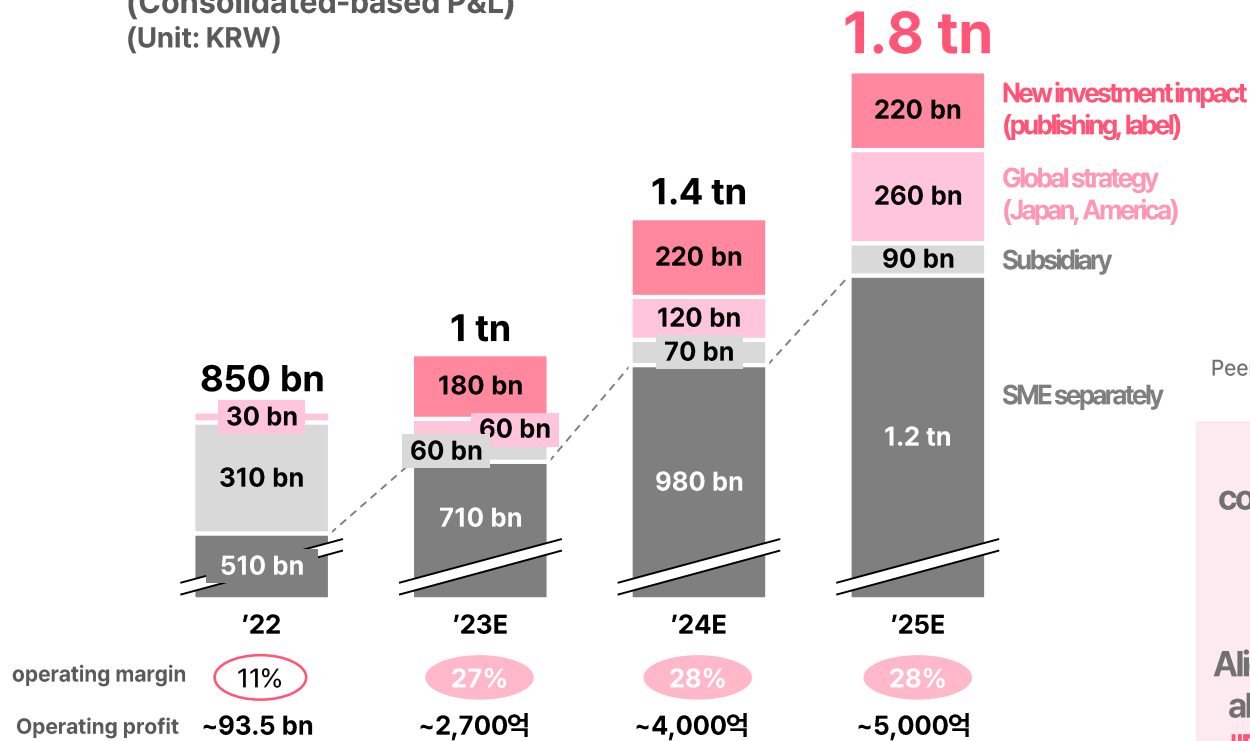
1. Securing core capabilities to achieve the target sales of KRW 1.2 tn (in '25 SME separately)
2. Generating additional KRW 480 bn in sales & KRW 80 bn in operating profit (in '25 SME consolidated)

	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

