

[Press Release]

**SM Announces Significance of Strategic Partnership with Kakao
Looks to Create Mutually Beneficial Synergies and Virtuous Cycle
Plans to Leverage Kakao's Platform to Push the Envelope in Delivering Fan-oriented IP
Content**

(Seoul, February 22, 2023) SM Entertainment has announced the significance that its strategic partnership with Kakao holds for its business from the perspective of fans and shareholders.

In a video unveiled today through its official YouTube channel, SM said that its collaboration with Kakao means a marriage of world-class content with a platform of the highest quality and that it is not a subordinate relationship but an equal strategic partnership that can lead to synergies and create a virtuous cycle.

The entertainment giant also said, "This is not a meeting between contents and contents, rather it is a meeting between contents and platform. It will maintain the diversity of the entertainment industry while strengthening the business performance of SM and Kakao."

1) The significance of the partnership in terms of the implementation of SM 3.0

SM said that its cooperation with Kakao is linked closely to SM 3.0's four strategies: IP strategy, IP monetization, global strategy, and cooperation in investment and new technology.

From the IP strategy perspective, the two companies can promote mutual partnership among their labels, engage in technological cooperation needed for the multi-production center, and expand the network for, and make joint investments in, production/publishing business. In particular, SM 3.0's multi-production center and label system will help expand the IP lineup considerably.

Moreover, from the perspective of IP monetization, SM can utilize Kakao's customer channels such as its album/track distribution platform to maximize profitability in all areas of SM's music business. By leveraging Kakao's story/video production capabilities, SM can also expand its SMCU IP content business to generate more monetization opportunities. In addition, Kakao's characters and its experience of success and technological knowhow in the area of e-commerce are expected to help expand SM's profit sources from primary IP content to derivative IP content and monetization.

With respect to global strategy, the partnership will broaden SM's business coverage through the operation of a consolidated office, the establishment of a joint venture, and a global platform built by Kakao.

Lastly, the two sides can make investments and engage in new technological partnership in areas that could serve as growth engines going forward such as fan platforms and virtual artists. They plan to upgrade SM's fan platform to a more integrated one by taking advantage of Kakao's technologies like artificial intelligence (AI). In a proactive response to emerging future technologies such as virtual artists and metaverse, the two companies will work together and make joint investments to maximize synergies between them.

2) Kakao, the best partner for SM's 3.0 multi-production strategy

SM explained in detail how synergies with Kakao can be created from the perspective of the multi-production center and the establishment of the label system, which is key to its IP strategy.

Kakao will provide state-of-the-art technologies such as AI that can be used in a variety of ways when creating content in SM's multi-production center. This is projected to generate immediate synergies with the production center when it comes to developing content related to virtual artists.

In addition, during the process of expanding SM's external labels, the two partners can share their networks and cooperate with each other to create mutually beneficial synergies.

Furthermore, SM's music publishing subsidiary will be able to provide quality music not only to SM's production center and labels but to Kakao's labels, which allows SM to expand its music services and enables Kakao to enhance the quality of its content significantly.

3) Greater profitability of SM's IP from the use of Kakao's platform

SM said, "We will expand our content coverage by strengthening the competitiveness of our music business and offering a rich media mix built on proprietary content." To this end, SM elaborated that it will reinforce collaboration in its music business, diversify content areas based on its IP and worldview, and fully leverage proprietary technologies and characters to offer more immersive experience for fans and help strengthen their engagement.

First and foremost, the move will sharpen SM's competitive edge by promoting cooperation in its music business per se. The company may explore partnership opportunities with Kakao's internal entities and partners, starting with sales and marketing cooperation with the music streaming platform Melon, a variety of joint business through collaboration with the album/track distributor Kakao Entertainment, and the use of the Seoul Arena as an event venue.

In terms of the diversification of IP licensing, which is aimed at creating and distributing additional content, SM can work with Kakao affiliates that produce webtoons, web novels, and drama to produce new types of content. It can also offer its IP-based content on global distribution platforms such as Piccoma, KakaoPage, and Tapas.

By leveraging Kakao's proprietary technology and MD/IP production capacity, SM will also be able to improve fan experience to a whole new level within a short period of time. In developing a new integrated fan platform, SM can make use of Kakao's platform planning and development capabilities. In addition, the company can produce IP-based content/MD by incorporating the experience of Kakao Friends and Kakao Commerce into its process.

4) Kakao and IP, two pillars of SM's bid for successful expansion into global markets – creating a virtuous cycle between platforms

"We expect synergies with Kakao while implementing SM 3.0's global business strategies focused on "country-specific entry" strategies," said SM, "SM and Kakao will provide an integrated support for their artists' global market entry and activities and establish a joint entity in countries for higher efficiency while collaborating for new artist discovery and development."

SM went on say, "We plan to expand our platform worldwide. In doing so, SM can leverage Kakao's established global content platform to spread SM's IP content globally for the platform business. Kakao's IT capabilities will also help SM upgrade its fan platform to a global level."

5) A new SMCU to be built on Kakao's technologies such as connectivity tech, AI, and metaverse

SM said, “Multi-faceted cooperation with Kakao will be also helpful in the future technology domains where SM 3.0 plans to invest as the mid-to-long-term growth engines in terms of spreading wholly new innovative fan experiences in all platform and content domains.”

Connection with Kakao’s platform and its support of developers will help deliver a variety of platform experience that fully engages fans.

On the content front, cutting-edge performance technologies will be leveraged to allow fans to enjoy the work of artists and real life-like content and to continue offering new content such as virtual artists in order to provide fans with greater choices.

6) Partnership with Kakao, the best choice for all stakeholders

“Our decision to partner with Kakao was not for the benefits of a few specific stakeholders, but it was the best option for everyone who has a stake in SM,” said SM, “as mentioned earlier, Kakao’s capabilities will be of a great support for SM to implement its plan for the future growth strategy and to accomplish the upgraded SM 3.0.”

The company also emphasized, “Synergy from the Kakao partnership will expand along with the sophistication of SM 3.0, and this will lead to maximum corporate value of SM which all shareholders are expecting. 85% of the entire SM employees support SM 3.0 growth strategy including the strategic partnership with Kakao. The identity of SM that the fandom is aspiring to maintain will never be damaged.”

SM went on to say, “SM believes that convergence with Kakao’s technology can open a new frontier for K-pop. Ever since SM was founded and established K-pop culture, we have always been in the frontline of incorporating new technology into entertainment. The partnership with Kakao will be a strong driver for SM to continue to lead K-pop in the future.”

[Full Text]

Hello from SM Entertainment.

Today, I'll be sharing the meaning of the strategic partnership with Kakao from a shareholder/fan perspective.

The SM-Kakao collaboration signifies the meeting between the best global contents and the best global platform. And this relationship is an equal and mutual strategic partnership that can generate synergy and create a virtuous cycle.

Through the collaboration with Kakao, SM looks forward to strengthening its platform competency to expand its fan-centric IP contents that hold infinite potential. The most significant effect from this endeavor will be distribution of SM-created contents through Kakao's platform. In addition, through the partnership with Kakao, SM's fan platform will become a more meaningful and higher quality IP contents/platform ecosystem.

This is not a meeting between contents and contents, rather it is a meeting between contents and platform. It will maintain the diversity of the entertainment industry while strengthening the business performance of SM and Kakao.

The SM-Kakao Partnership is closely related to the 4 strategies of SM 3.0.

From the IP strategy perspective, we can engage in mutual partnership among the labels owned by the two companies as well as expand technical cooperation and production/publishing network and joint investment. Kakao will play an important role in expanding the IP lineup for multi-production center/multi-label system under SM 3.0.

Moreover, from the IP monetization perspective, we can maximize profitability from all areas of SM's music business by utilizing customer channels such as Kakao's album/track distribution. By consolidating story/video production capability, the SMCU IP contents will expand further to present more monetization opportunities. Furthermore, the experience of success and technology know-how owned by Kakao will diversify the profit source from just the Primary IP contents to Derivative IP contents.

In the global strategy, operation of a consolidated office or establishment of a joint venture as well as utilization of global platform that is already established by Kakao will reinforce SM's business coverage.

Lastly, we'll cover investment in areas that have the potential to become new growth engines such as the fan platform and virtual artists. We will upgrade SM's fan platform leveraging Kakao's technology support. Furthermore, we will co-invest in future technology areas such as virtual artists metaverse, and through this, we will be able to maximize both companies' synergies.

I'll further explain the Kakao synergy from the perspective of multi-production center/multi-label system accomplishment under SM 3.0, which is the key to the IP strategy.

First, Kakao will provide various technology platforms including AI, that could be used in various ways in the SM multi-production center. In particular, we expect to see immediate synergy in the virtual artist IP production center and furthermore we will be able to introduce IP contents across the entire production center using new technology.

In particular, as SM is in the process of expanding into external labels, the two companies will be able to share the network owned by each company to generate synergy.

Lastly, SM's music publishing subsidiary will be able to provide high-quality music not only to SM's publishing center and its labels but also to Kakao, to increase the number of sales contact points.

Furthermore, the cooperation with the Kakao platform will expand the foundation for profit generated from IPs owned by SM Entertainment.

Music/video contents based on SM artists' performances and Derivative IP based on artists' identities and SM universe, can be expanded in three different ways.

First, the cooperation network within the music industry will be expanded. Cooperation in track distribution and marketing with the music streaming platform Melon and the utilization of the venue, Seoul Arena will be the starting point of various partnership opportunities with various companies in and outside of Kakao Group.

It will have a great impact on additional content creation and distribution through diversification of IP licensing. By collaborating with Kakao affiliates that create webtoons, web novels and drama, we will be able to create new type of contents or upload SM IP-based contents on global distribution platforms such as Piccoma, Kakaopage and Tapas, which will provide diverse monetization opportunities from a wider fanbase.

Moreover, we will be able to improve the fan experience within a short period of time by leveraging Kakao's source technology and MD/IP production capability. Kakao can provide support in platform planning and development for SM's new consolidated platform. Also, Kakao Friends and Kakao Commerce experience can be tied together to create SM IP-based contents/MD.

We expect synergies with Kakao while implementing SM 3.0's global business strategies focused on "country-specific entry" strategies. SM and Kakao will provide an integrated support for their artists' global market entry and activities and establish a joint entity in countries for higher efficiency while collaborating for new artist discovery and development.

Moreover, SM can leverage Kakao's established global content platform to spread SM's IP content globally for the platform business. Kakao's IT capabilities will also help SM upgrade its fan platform to a global level.

Multi-faceted cooperation with Kakao will be also helpful in the future technology domains where SM 3.0 plans to invest as the mid-to-long-term growth engines in terms of spreading wholly new innovative fan experiences in all platform and content domains.

In terms of platform, we will enhance your platform experience by linking ours with Kakao's platforms and supporting Kakao developers. In terms of content, we will let our fans have near-real-life experience of the artists and content anytime, anywhere by combining with state-of-the-art performance technologies. We will also provide our fans with various forms of entertainment by constantly supplying new content such as virtual artist IP.

Our decision to partner with Kakao was not for the benefits of a few specific stakeholders, but it was the best option for everyone who has a stake in SM. As mentioned earlier, Kakao's capabilities will be of a great support for SM to implement its plan for the future growth strategy and to accomplish the upgraded SM 3.0.

Synergy from the Kakao partnership will expand along with the sophistication of SM 3.0, and this will lead to maximum corporate value of SM which all shareholders are expecting.

85% of the entire SM employees support SM 3.0 growth strategy including the strategic partnership with Kakao. The identity of SM that the fandom is aspiring to maintain will never be damaged.

Lastly, SM believes that convergence with Kakao's technology can open a new frontier for K-pop. Ever since SM was founded and established K-pop culture, we have always been in the frontline of incorporating new technology into entertainment. The partnership with Kakao will be a strong driver for SM to continue to lead K-pop in the future.

Since we announced the strategic partnership with Kakao, many people including the shareholders and fans have asked what SM's goal is in this partnership. We hope that today's session gave you answers to your questions.

We will continue to communicate with you as this partnership delivers more tangible outcome. We greatly appreciate your interest in our strategic partnership with Kakao and the upcoming era of SM 3.0. Thank you.