

## [Press Release]

### SM Entertainment Announces Expanded Shareholder Return Plan

- **SM to adopt target capital structure to enhance shareholder rate of return and expand investments and shareholder returns**
- **Company will prioritize investment in the implementation of the “SM 3.0” and actively utilize funds for shareholder returns in accordance with the target capital structure standard**
- **A minimum of 30% of annual net income will be distributed to shareholders under the new announced policy**

(Feb. 27, Seoul) SM Entertainment announced an enhanced shareholder return policy today, just following the announcement on January 20 that the company will return at least 20% of SM’s annual net income to shareholders for the next three years (from fiscal year 2022 to 2024).

Cheol-hyuk Jang, the Chief Financial Officer of SM stated that “the shareholders generally require a higher rate of return than the financial institutions creditor, and the shareholder return can be higher when we maintain a certain amount of debt. So, if we debt-finance our business to the extent we don’t jeopardize the financial stability, we can reduce the cost of capital by leveraging the cost of debt.” On the background of the expanded shareholder return policy, he explained, “Historically, SM has operated without any debt, so the revision of our financial strategy will allow us to quickly enhance shareholder returns.”

Jang added, “The SM 3.0 strategy strives to create a management structure that benefits not just specific shareholders but all fans and shareholders. To realize this goal, we have set a target capital structure of net debt that is 0.5x to 1x the operating profit as our financial strategy for capital deployment, which will increase shareholder returns.”

Apple, the world's largest company by market capitalization, has also been maximizing shareholder returns after announcing in February 2018 that it would adopt a “Net Cash Neutral” policy with a goal of zero net cash. SM’s new shareholder return policy will maintain net debt between 0.5x to 1x the annual operating profit on a standalone basis each year, to prioritize necessary investments in the business and use the difference in net borrowings at the end of each period to pay shareholder returns if the figure is lower than the targeted net borrowings under the target capital structure.

Under the recently announced SM 3.0 strategy, SM plans to execute KRW 1 trillion in investments over the next three years, which will be funded through (1) cash on hand (2) investments from strategic partners (3) sales of non-core assets, and (4) loans. Even with the KRW 1 trillion investment, if SM 3.0 strategy is realized, SM will be able to achieve its target capital structure (maintaining net debt of 0.5x to 1x operating profit) and secure cash inflows from the business, thereby raising funds for shareholder returns. In addition, the company will maintain a minimum 30% of net income for shareholder returns, even if the amount of funds available for shareholder returns in a given year is reduced due to intensive investment, to increase predictability for the shareholders.

Through the announcement of the new financial strategy and expanded shareholder return policy, as well as the three previous announcements of the SM 3.0 strategy, SM has been consistently promoting its new management policies that will enhance total shareholder return and not just benefit specific shareholders.

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