

# **4Q23 CEO Message Script**

**7<sup>th</sup> February, 2024**

**SM ENTERTAINMENT CO., Ltd.**

Hello, this is Jang Cheol Hyuk, CEO of SM ENTERTAINMENT.

Following the quarterly results announcement, I will give you an update on our major business strategies.

**If you could please turn over to page #2.**

First, I would like to discuss the major achievements of SM 3.0.

The multi-production system, which is the core part of our SM 3.0 strategy, has been operating successfully since its introduction last year, and active musical activities are underway under the guidance of each production SM director.

This can be confirmed by our business performance in 2023.

In 2023, a total of 64 albums and digital music were released, and sales of new albums recorded an all-time high of 20.1 million copies.

In addition, the number of concerts increased to 340 in 2023 thanks to our strong concert lineup.

RIIZE, the first boy group to be introduced under the multi-production system, has sold more than a million copies of their debut album since their official debut in September 2023. 'Love 119', which was released in January 2024, not only topped music television broadcasts but is also maintaining high rankings on various streaming charts. RIIZE will continue to expand their fandom through various activities this year.

Additionally, with a total of 4 new IPs scheduled to launch this year, our artist lineup will continue to expand.

Next, I will talk about our publishing business, one of the main strategies of SM 3.0.

**If I could please have your attention to page #3.**

We established a publishing subsidiary called KMR, with a plan to supply quality songs to SM and the K-pop industry as a whole. Since its establishment last September, we have recruited a total of 84 composers as of January 2024.

In addition, a European branch of KMR was established to recruit a large number of European composers who have worked on leading K-pop songs.

Starting from Europe, in 2024, we plan to expand to recruiting composers in North America by establishing a local branch in the US.

In 2023, we conducted various song pitches through two song camps.

We plan to hold at least 2 large-scale song camps this year in order to sell songs and discover/recruit song writers. While working to build our own publishing system, we will also expand the artist activities of KMR's exclusive writers, in order to begin our production business in earnest in addition to publishing.

We will maximize the production capabilities of KMR through close collaboration between SM artists and KMR producers.

**Please turn to page #4.**

Next, I would like to explain about our global business expansion.

The North American integrated corporation between SM and Kakao Entertainment has been actively supporting SM and Kakao Entertainment artists' activities in the US, and is working to establish and expand local partnerships for artists.

Additionally, we signed a strategic agreement with MOON & BACK, a UK-based entertainment company, and decided to launch a British boy group that will carry out global activities.

MOON & BACK is an entertainment and TV program production company

headquartered in London, England, and was founded by the producers of popular TV programs such as 'The X Factor' and 'Britain's Got Talent'.

For the debut for the new British boy group, MOON & BACK will directly cast a five-member boy group in the UK, and SM will provide various K-pop know-how such as music, music videos, and choreography. The songs that the group will sing is sourced by KMR, SM's music publishing subsidiary.

MOON & BACK plans to air a 6-part TV series about the boy group's growth story to countries such as UK, US, and Korea starting from the second half of this year. The boy group is scheduled to make a debut in the second half of the year.

This project is expected to draw the attention of the global market as it is the debut of a boy group jointly prepared by K-pop leader SM and TV reality show production company MOON & BACK, for the first time in the UK, the home of pop music.

As such, we plan to expand collaboration with not only global record labels but also various overseas partners, and will continue to develop and invest in music and artist IP overseas.

Furthermore, SM ENTERTAINMENT is also strengthening our activities in Japan, a main market for K-pop.

NCT WISH, the final chapter of NCT, released a pre-debut single in Japan last October, and concluded a tour consisted of a total of 24 shows across Japan.

In addition to NCT WISH, artists such as NCT DREAM, aespa, and SHINee have also conducted various activities in Japan, including tours, and plan to strengthen their Japanese activities this year as well, including Japanese albums and tours.

I have discussed with you about our progress related to the SM 3.0 strategy, and next I would like to tell you about our mid-to-long term management plans.

**Please turn to page #5.**

Early last year, we announced our mid-to-long term management plan along with our SM 3.0 strategy.

Now, one year later, we plan to revise our plan to reflect the results of our review of the initial strategy.

Our company had established a goal to achieve 1.4 trillion won in revenue and 240 billion won in operating profit by 2025, in consolidated basis.

Below are the changes from the previous plan.

Some of the strategies related to new businesses, including the fan platform business, were revised. Label acquisition plans were delayed due to increased uncertainty in the industry, and thus the expected timing of new revenue from the label acquisition were adjusted.

In addition, the outlook for SM ENTERTAINMENT parent earnings were also adjusted.

Concert and MD business internalization plans were revised. In addition, we revised our original plan to release more than 2 new IPs a year under SM ENTERTAINMENT, to 2 new IPs a year including IPs from our local subsidiaries and labels.

**Please turn to page #6.**

SM ENTERTAINMENT parent revenue for 2024 is expected to be 703.0 billion won, a growth of approximately 14% compared to the previous year. We plan to release more than 35 albums in 2024, and we will maximize the stability of business performance and the effect of album releases by adjusting the release schedule so that albums can be released evenly throughout the year.

In 2024, a total of 4 new artists are expected to make a debut, including NCT WISH, who is scheduled to debut in February, virtual artist naevis, a new girl group, and a British boy group.

In addition, we plan to expand the global activities of our artists by releasing global albums for major artists at least once a year and expanding the scale of global concerts.

We will also discover local artists and expand MD sales in line with their global activities to secure additional revenue.

**Please turn to page #7.**

Next, I will talk about our shareholder return policy.

Last year, as part of our efforts to increase shareholder value, we promised to pay out more than 30% of our parent net income as dividends.

In order to fulfill this promise, the board of directors decided today through our board meeting to set the dividend per share for fiscal year 2023 at 1,200 won, and decided to cancel 240,000 shares of the company's treasury shares.

**Now, I will explain our mid-to-long term investment plans.**

We have revised our investment plan until 2025 in line with our mid-to-long term business plan. We plan to make a total investment of 500 billion won across 4 areas including: expansion of publishing capabilities, label acquisition, global expansion, and virtual IP. The investment funds will be raised from a portion of our cash holdings and future cash from operating activities, sales of non-core assets, and borrowings.

Investments for future growth will aim to achieve these plans, but will be executed

after sufficient review of the feasibility of each investment. We would like to inform you that we have no plans to make unreasonable investments to achieve the targeted investment amount.

Lastly, I would like to briefly state our position on several recent media reports regarding our company.

Recently, various media reports on rumors about Kakao's sale of SM, potential changes in our company's management, and the M&A deals carried out by KMR have been released, creating a lot of noise both internally and externally, and we are in an environment where our normal business progress is inevitably affected to some extent. Based on the judgment that if left unattended, this could lead to damage of our company's value, we decided to issue a statement on February 5. We ask shareholders and stakeholders to please take note of this.

This concludes my presentation. Thank you for your time.