
The K-Pop Industry: General Overview and Outlook

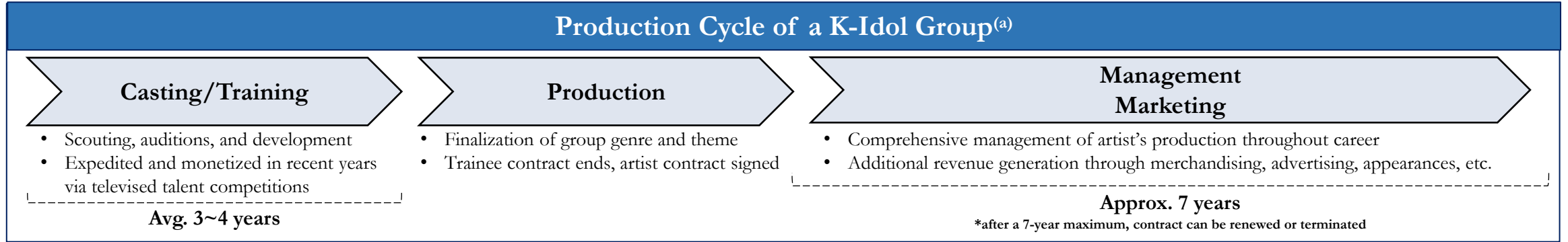
Fall 2023

Agenda

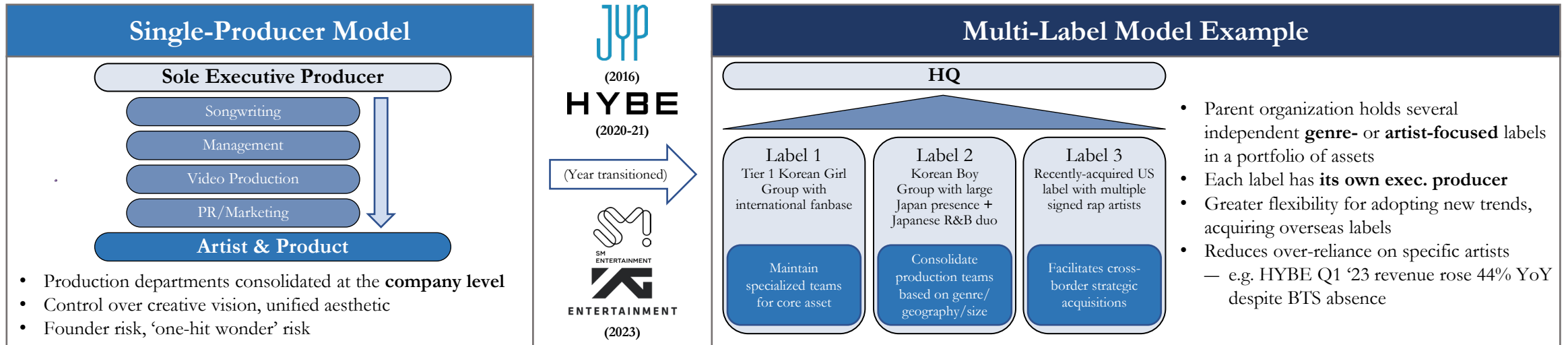
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Industry Overview – Business Model Creates Global Superstars and Valuable Content

- The K-Pop industry consists of a network of record labels that specialize in systematically scouting, developing and managing musical talent on an international scale. Compared to other entertainment segments, higher degree of involvement and value-add in creating valuable performers/content with measurable fan base and associated ARPU data



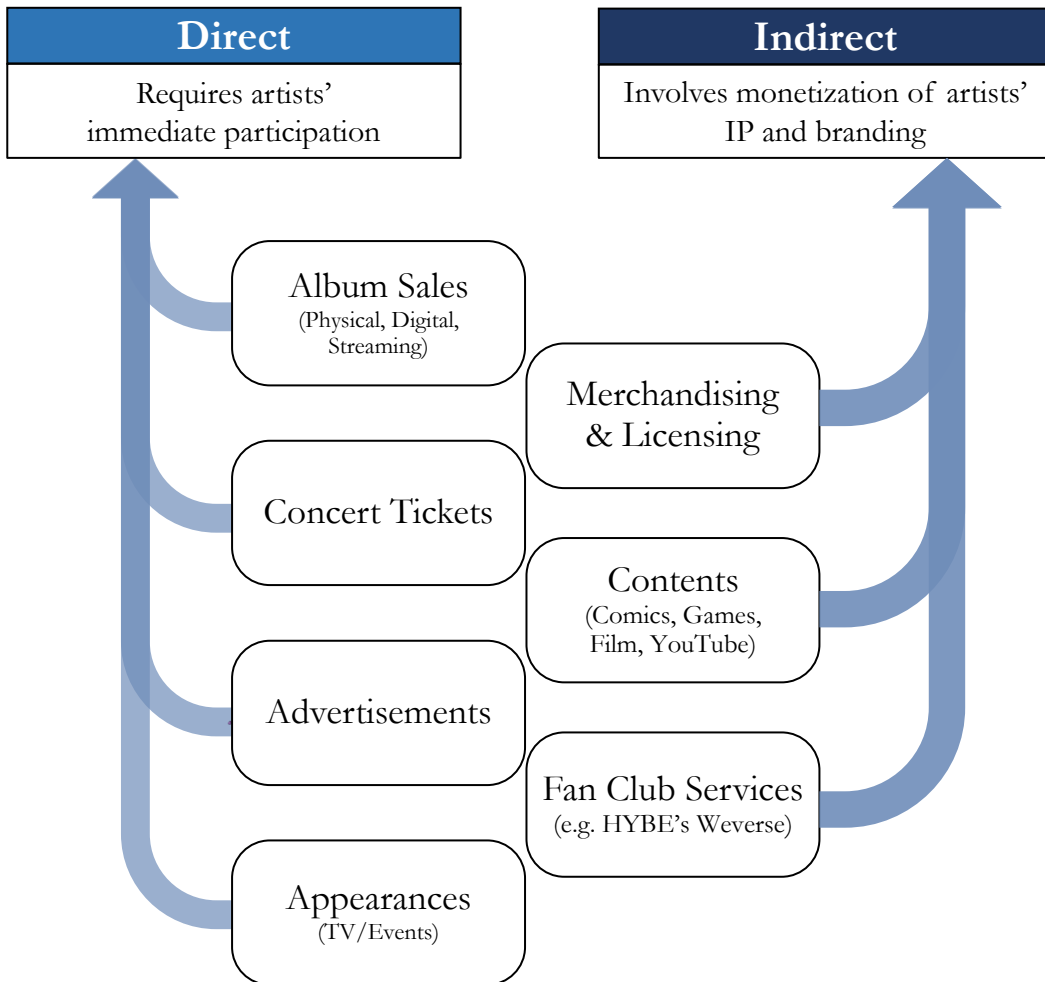
- Industry-wide shift from “Single-Producer” to “Multi-Label” business model now complete at all four major labels



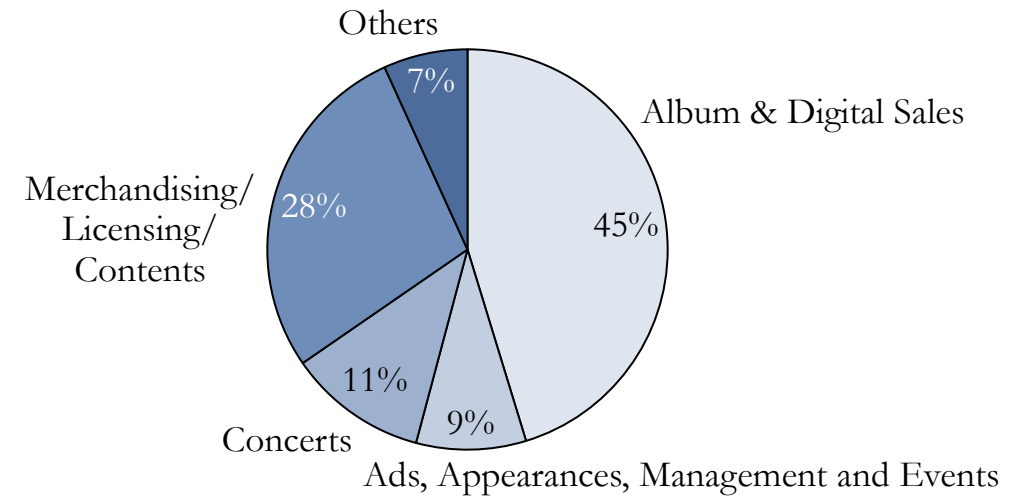
*(a) As described by former SM Entertainment chairman Lee Soo-man; specifics differ by agency
Sources: Lee Soo-man, Ministry of Culture, Sports and Tourism, SM Entertainment, HYBE*

Industry Overview – Revenue Model

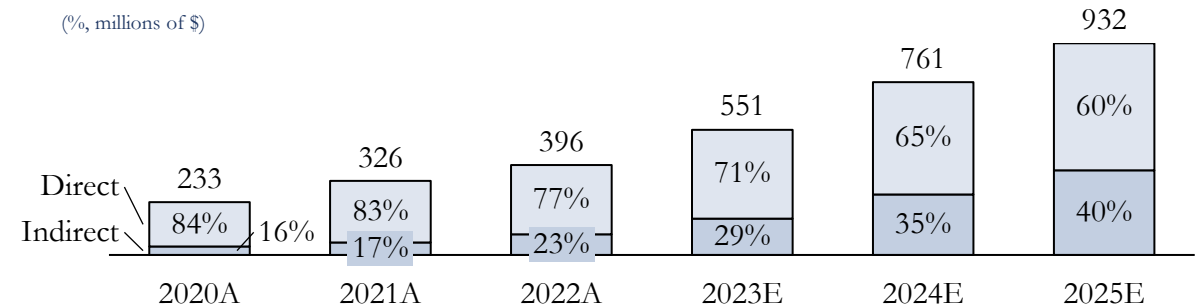
- Revenues are generally classified as either **artist-direct** or **artist-indirect** revenue^(a)
- Indirect revenues, e.g. from merchandise and video content, have grown over time



Average Revenue Profile of a “Big 4” Record Label^(b)



SM Entertainment's Indirect Revenue Contribution Increasing



^(a) Terminology from HYBE, may differ by agency; for example, SM uses “primary” and “secondary” IP revenue

^(b) Revenue-weighted average of the Big 4 labels' sales mix, 1Q '23

Sources: DART, SM Entertainment, HYBE

Market Overview – Competitive Dynamic

The K-Pop industry is rapidly growing both domestically and abroad...

...and the Big 4 dominate the Korea market

Digital/Streaming



K-Pop Streaming Metrics^(a)

700M+

Total streams on Spotify, 2022

+65%

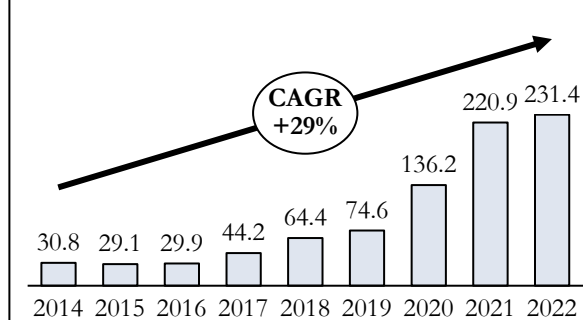
Growth since K-Pop Hub launch

4.5M+

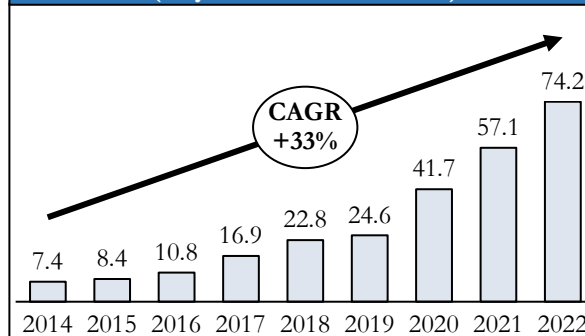
New Followers in 2022

Physical

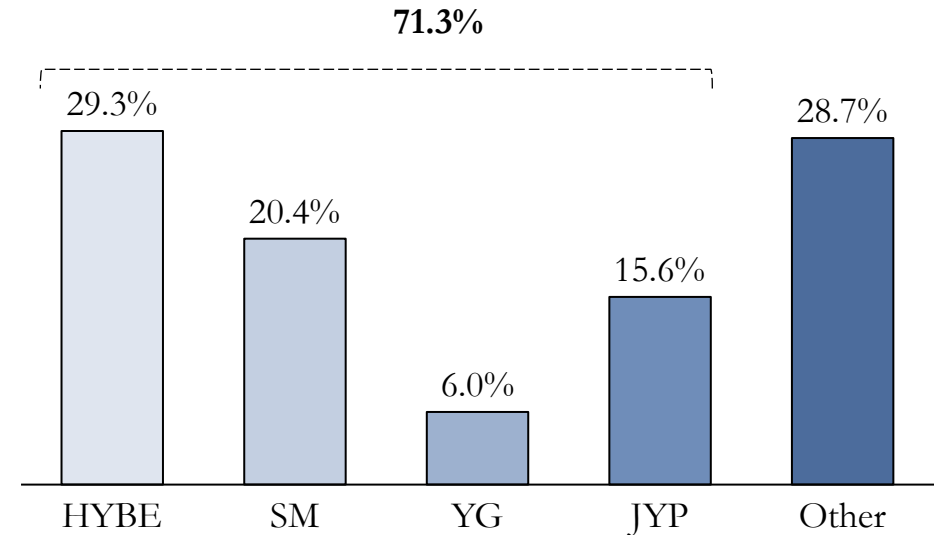
Total Value of K-Pop Album Exports (Millions of \$)



Gross Albums Sold, Domestic (Physical units, millions)



K-Pop Album Sales Market Share (2022 Est., %)



Big 4-signed artists accounted for:

- 14 of the top 15 artists by album sales in 2022
- 72% of the top 50 individual tracks in 2022

^(a) As of Jan 15, 2023
Sources: Circle Charts, Korea Customs Service, Spotify, Yuanta Securities

Summary of the Big 4 Labels

HYBE

- Founded by Bang Si-Hyuk in 2005; rebranded as HYBE in 2021

Stock Price	Market Cap	LTM EV/EBITDA	Major Artists
\$184.13	\$7,700m	27.3x	BTS, TXT, NewJeans, Ariana Grande, Justin Bieber

- HYBE, along with JYP, was a pioneer of the multi-label model starting in '20~21
- HYBE plays a leading role in exploring new K-Pop monetization avenues
 - Its social media platform Weverse provides merchandising and streaming services focused on direct fan engagement; ~9.3M active users in Q1 '23
- Merged with Ithaca Holdings in \$1B transaction in '21; acquired QC Holdings for \$300m in '23; in process of raising \$380m for further US acquisitions (June '23)
 - Future M&A activity anticipated with failure of SM takeover (see below)

SM Entertainment

- Founded by Lee Soo-man in 1995; Lee was Exec. Producer until 2023

Stock Price	Market Cap	LTM EV/EBITDA	Major Artists
\$99.60	\$2,390m	17.7x	Aespa, NCT, Red Velvet, SHINee, Super Junior

- SM is notable for its implementation of media/technological innovations, including:
 - Signing a partnership with Binance to expand its NFT ventures;
 - Operating the Bubble social platform, which sells simulated '1:1' chats with artists
- In Feb '23, Founder Lee was targeted by activist investors and stepped down
 - Lee sold his equity to HYBE, which used its position to launch a tender offer; however, Kakao launched a competing bid and ultimately prevailed
 - Kakao became largest shareholder with 39.9% stake; HYBE reduced to 8.8%

YG Entertainment

- Founded by brothers Yang Hyun-suk & Yang Min-suk in 1996

Stock Price	Market Cap	LTM EV/EBITDA	Major Artists
\$57.38	\$1,109m	12.9x	BLACKPINK, Treasure, G-Dragon

- One of the original 'Big 3', artists produced by YG have found domestic and international success and made an outsize impact on K-pop's image abroad
 - BLACKPINK, BigBang and Psy (departed 2018) have all brought K-pop to the global mainstream
- YG and HYBE have a strategic relationship through the latter's 17.9% equity investment into YG PLUS, which also makes merchandise for the Weverse platform
- Yang Hyun-suk returned to Exec. Producer role in Jan '23 following scandals in '18

JYP Entertainment

- Founded by Park Jin-young in 1996; Park is CCO and Exec. Producer

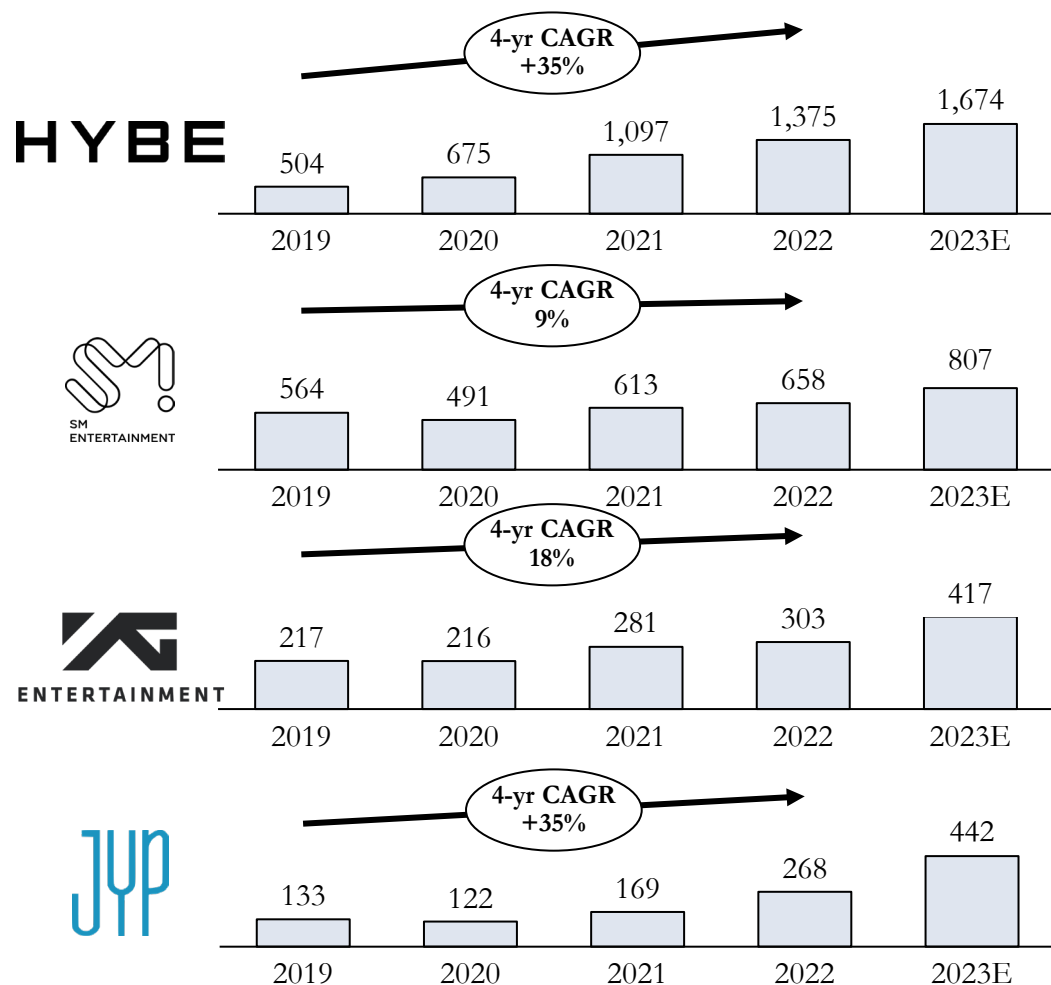
Stock Price	Market Cap	LTM EV/EBITDA	Major Artists
\$80.78	\$2,763m	23.5x	Stray Kids, Twice, NMIXX, ITZY

- First to adopt the multi-label model in '16; distinguished from peers by its streamlined organizational structure resulting in strong EBITDA margin
- Historically known for producing highly successful girl groups, such as Wonder Girls ('07), Twice ('15) and ITZY ('19)
 - However, boy band Stray Kids is also finding success, topping the Billboard 200 charts for the third time in June '23

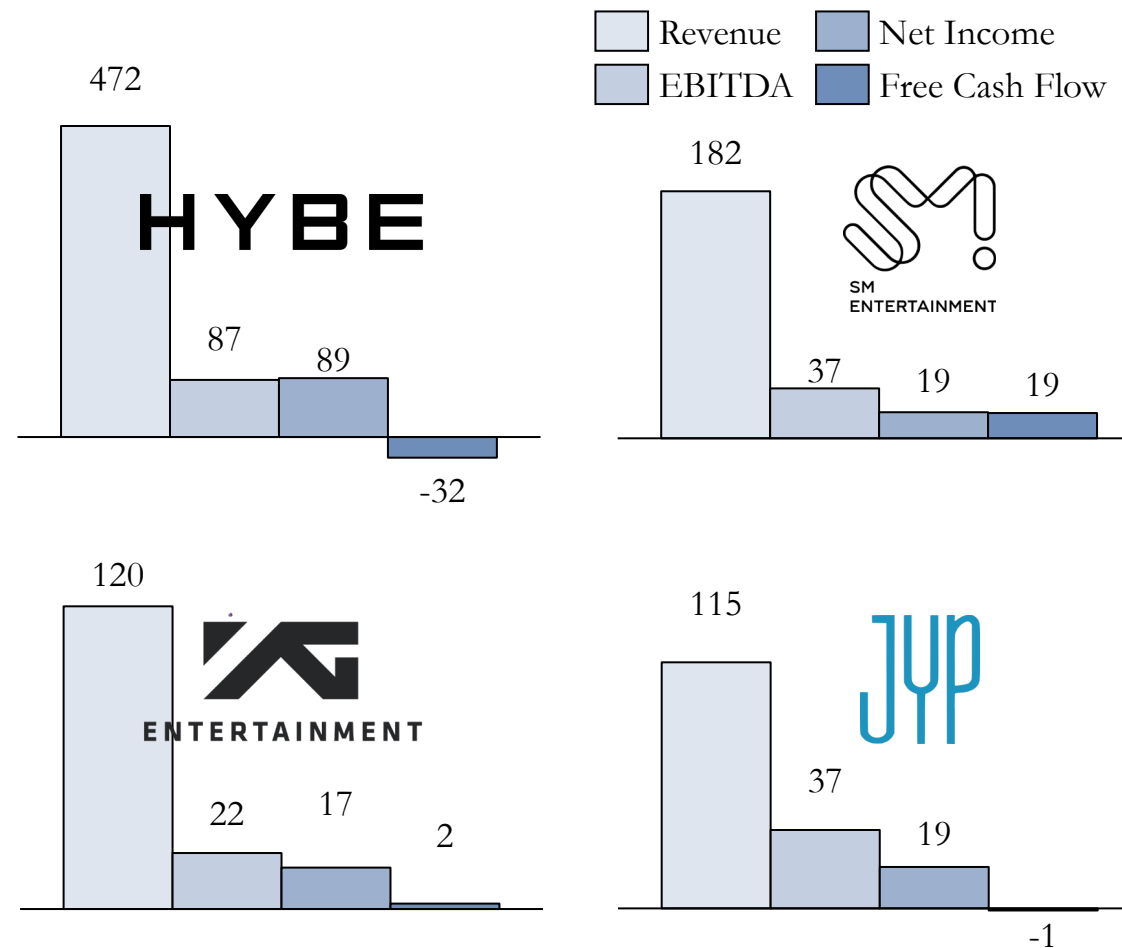
Financial Overview – Big 4 Labels’ P/L

- Since 2019, HYBE and JYP have outperformed on revenue growth; JYP had strongest EBITDA margin

Historical Revenue Growth (millions of \$)



P/L Highlights (2Q '23, millions of \$)



Valuation Overview – Domestic Big 4 K-Pop Labels

Valuation Metrics

As of September 15, 2023

\$ millions USD

Company Name	Share Price	% of			EV	EV/Revenue			EV/EBITDA			Price/Earnings			Price/FCF		
		52-wk High	Mkt Cap	Net Debt		LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E
HYBE Co., Ltd.	184.40	76.4%	\$7,700.2	(\$197.4)	\$7,649.6	5.0x	4.6x	4.0x	27.3x	25.9x	22.4x	nm ^(a)	37.8x	33.9x	48.1x	31.8x	34.1x
JYP Entertainment Corp	83.42	72.6%	2,763.6	(117.3)	2,650.1	7.3x	6.0x	5.1x	23.5x	18.2x	15.6x	35.6x	26.4x	22.8x	51.8x	41.6x	46.3x
SM ENTERTAINMENT CO. Ltd.	101.97	83.6%	2,390.0	(331.4)	2,212.0	3.1x	2.7x	2.4x	17.7x	14.3x	12.0x	42.6x	26.9x	22.1x	22.8x	18.4x	19.5x
YG Entertainment, Inc.	59.81	81.7%	1,109.2	(131.8)	1,065.7	2.4x	2.4x	2.3x	12.9x	12.4x	11.8x	19.7x	22.0x	21.3x	17.4x	10.6x	8.5x
Low			\$1,109.2	(\$331.4)	\$1,065.7	2.4x	2.4x	2.3x	12.9x	12.4x	11.8x	19.7x	22.0x	21.3x	17.4x	10.6x	8.5x
High			7,700.2	(117.3)	7,649.6	7.3x	6.0x	5.1x	27.3x	25.9x	22.4x	42.6x	37.8x	33.9x	51.8x	41.6x	46.3x
Mean			3,490.8	(194.5)	3,394.3	4.5x	3.9x	3.4x	20.4x	17.7x	15.4x	32.6x	28.3x	25.0x	35.0x	25.6x	27.1x
Median			2,576.8	(164.6)	2,431.0	4.1x	3.7x	3.2x	20.6x	16.3x	13.8x	35.6x	26.6x	22.4x	35.4x	25.1x	26.8x

Financial Metrics

As of September 15, 2023

\$ millions USD

Company Name	Revenue			EBITDA			Net Income			Free Cash Flow			Revenue Growth			EBITDA Margin			Net Income Margin			FCF Margin		
	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E	LTM	2023E	2024E
HYBE Co., Ltd.	\$1,519.6	\$1,679.4	\$1,902.2	\$280.7	\$295.2	\$342.1	\$40.5	\$196.5	\$224.6	\$159.1	\$240.6	\$224.6	14%	11%	13%	18%	18%	18%	3%	12%	12%	57%	81%	66%
JYP Entertainment Corp	362.9	444.1	527.4	113.2	146.6	170.6	52.2	110.6	125.8	61.4	100.8	125.8	70%	22%	19%	31%	33%	32%	14%	25%	24%	54%	69%	74%
SM ENTERTAINMENT CO. Ltd.	710.9	807.7	941.6	125.1	154.8	185.5	61.9	93.4	113.6	97.2	120.3	113.6	21%	14%	17%	18%	19%	20%	9%	12%	12%	78%	78%	61%
YG Entertainment, Inc.	419.8	420.3	452.5	79.3	82.4	87.0	26.0	55.7	57.2	51.2	63.7	57.2	55%	0%	8%	19%	20%	19%	6%	13%	13%	64%	77%	66%
Low	\$362.9	\$420.3	\$452.5	\$79.3	\$82.4	\$87.0	\$26.0	\$55.7	\$57.2	\$51.2	\$63.7	\$57.2	14%	0%	8%	18%	18%	18%	3%	12%	12%	54%	69%	61%
High	1,519.6	1,679.4	1,902.2	280.7	295.2	342.1	61.9	196.5	224.6	159.1	240.6	224.6	70%	22%	19%	31%	33%	32%	14%	25%	24%	78%	81%	74%
Mean	753.3	837.8	955.9	149.6	169.8	196.3	45.2	114.1	130.3	92.2	131.3	130.3	40%	12%	14%	22%	22%	22%	8%	15%	15%	63%	76%	67%
Median	565.3	625.9	734.5	119.2	150.7	178.0	46.4	102.0	119.7	79.3	110.5	119.7	38%	12%	15%	19%	19%	19%	7%	12%	12%	61%	77%	66%

(a) HYBE's LTM P/E treated as outlier

Sources: FactSet

Strategic Trends – Globalization and ‘Glocalization’

- The K-Pop industry’s plans for global expansion can be separated into three phases

Phase 1: Cultural Export of Korean Artists



BoA (active 2000~)
First Korean artist to place #1 on Japan’s Oricon Chart



BigBang (active 2006~)
First Korean album to chart on Billboard 200

- 1990s – 2010s
- Utilize innovative IP to export contents and generate interest in Korean culture & K-Pop as a genre
- Unidirectional; focuses on selling albums, concert tickets

Phase 2: Multicultural K-Pop



Lisa (Thai rapper, BLACKPINK)
First album by a K-Pop soloist to reach 1B Spotify streams



NCT (active 2016~)
11/20 members hold non-Korean citizenship

- 2010s – 2020s
- Cultivate & incorporate outstanding Asia/regional talent into a Korean-speaking group
- Multidirectional; creates a worldwide conversation around K-Pop
- Further boosts group’s popularity in different cultures
 - e.g. Lisa from BLACKPINK

Phase 3: Glocalization



JYP-Republic Records
‘A2K Project’ auditions



HYBE-Universal/Geffen Records
Unnamed Girl Group auditions



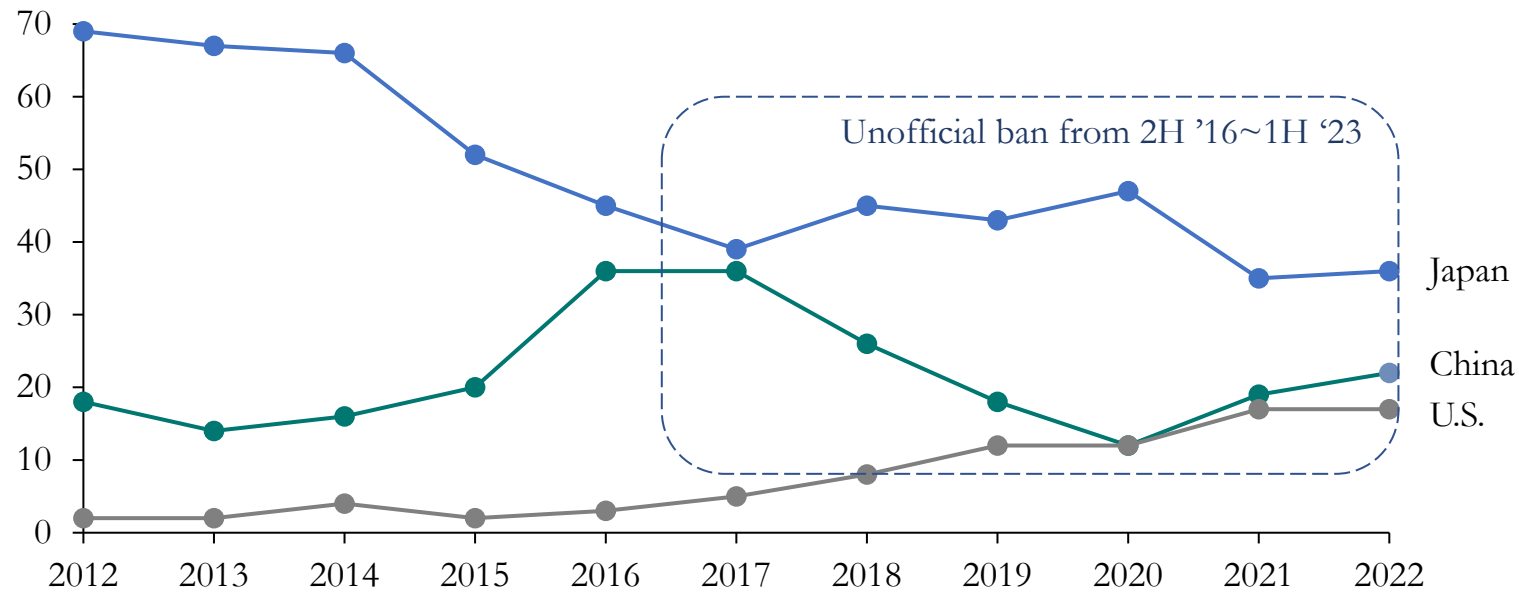
JYP and Tencent’s BOYSTORY debuted in 2018 with an all-Chinese lineup

- Late 2010s~
- Forming JVs with local partners to develop and debut new idol groups formed entirely of local talent
- Emphasis on exporting the systems and business models behind K-Pop while expanding into new markets and genres (e.g. C-Pop)

Strategic Trends – Globalization and ‘Glocalization’ (cont.)

- The shift towards ‘Glocalization’ was partially driven by lessons from China’s 2016 ban on K-Pop

Receiving Share of K-pop Album Exports (by Destination, % of Value)



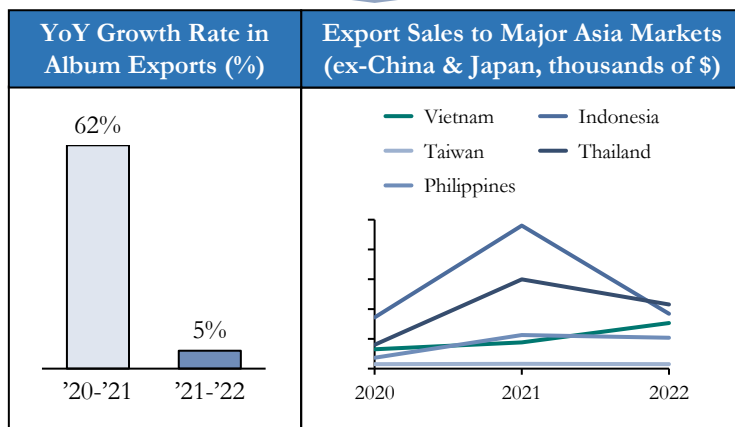
Commentary

- In 2H '16, China began unofficially banning Korean music and entertainment from its media
- However, completely Chinese artists such as JYP’s BOYSTORY still allowed to perform
- Glocalization serves a double purpose:
 - In US/EU/etc., creates groups that can operate **natively** in several cultures/markets
 - Simultaneously, **insulates** label from potential regulatory risks in regions like China

K-Pop's Future Outlook: Key Strategic Issues

Potential Headwinds

K-Pop may face new challenges in an increasingly competitive global environment



- HYBE Chairman Bang pointed at low export growth rate between '21~'22 as evidence of possible slowdown
 - Exports to major Southeast Asian markets (excl. Vietnam) all decreased from '21~'22
 - Circle Charts voiced concerns on the staying power of K-Pop in critical emerging markets
- Potential competitive threats:
 - Growing popularity of non-Asian ethnic music (e.g. Latin, Afrobeat)
 - Non-Korean companies adopting the K-Pop model
 - Diminishing contractual control model of artists

Premium Valuation Sustainable?

Big 4 labels trade at massive premiums to both legacy Korean media companies as well as global music publishers

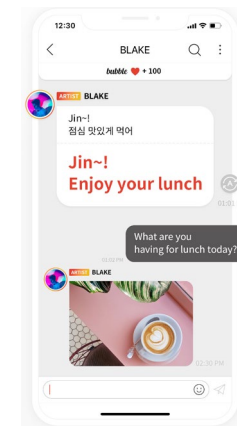
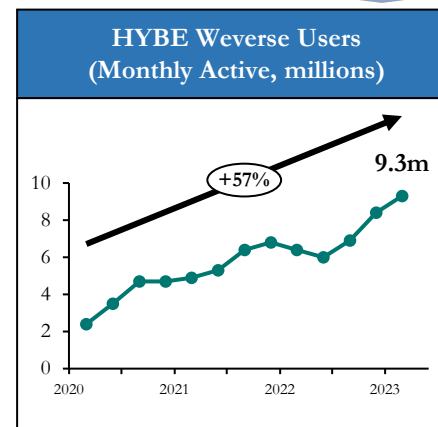
	Average Valuation Metrics	
	EV/EBITDA	P/E
Big 4 Labels	20.4x	32.6x
Korean Media ^(a)	5.0x	17.4x
Major Int'l Publishers ^(b)	15.8x	31.5x

^(a) Includes CJ ENM, SBS Co., KT Skylife, Daiwon Media, and CJ CGV
^(b) Includes Warner Music, Universal Music Group, Sony, and Tencent Holdings

- Potential explanations include:
 - Greater level of ownership and value-add regarding artists and IPs compared to other media; therefore, valuation fully incorporates both earnings stream and asset value of performers/content
 - Viewing the Big 4 Labels as mixed Entertainment/Tech plays given recent expansion of new revenue streams
 - Pricing in higher growth rates and taking market share from the international majors
 - Korean retail investors continue to be major drivers of pricing

Future Evolution of K-Pop

The continued expansion of K-Pop will hinge on (1) discovering new revenue streams and (2) exporting K-Pop's production model



- Ownership of social media platforms allows companies to explore new IP monetization streams
 - Monetization of fan relationships: high potential reward, low unit cost, inelastic/consistent demand
 - SM's Bubble lets fans pay for simulated "1:1" chats
- Mixed-media: high investment costs but strong opportunities for IP development through film, comics, etc.
- Drive for glocalization may reduce Korean artists' market share overseas in the short run; however, expansion of addressable market size likely to make up for the difference