

# Kakao

September 2016 | Investor Relations

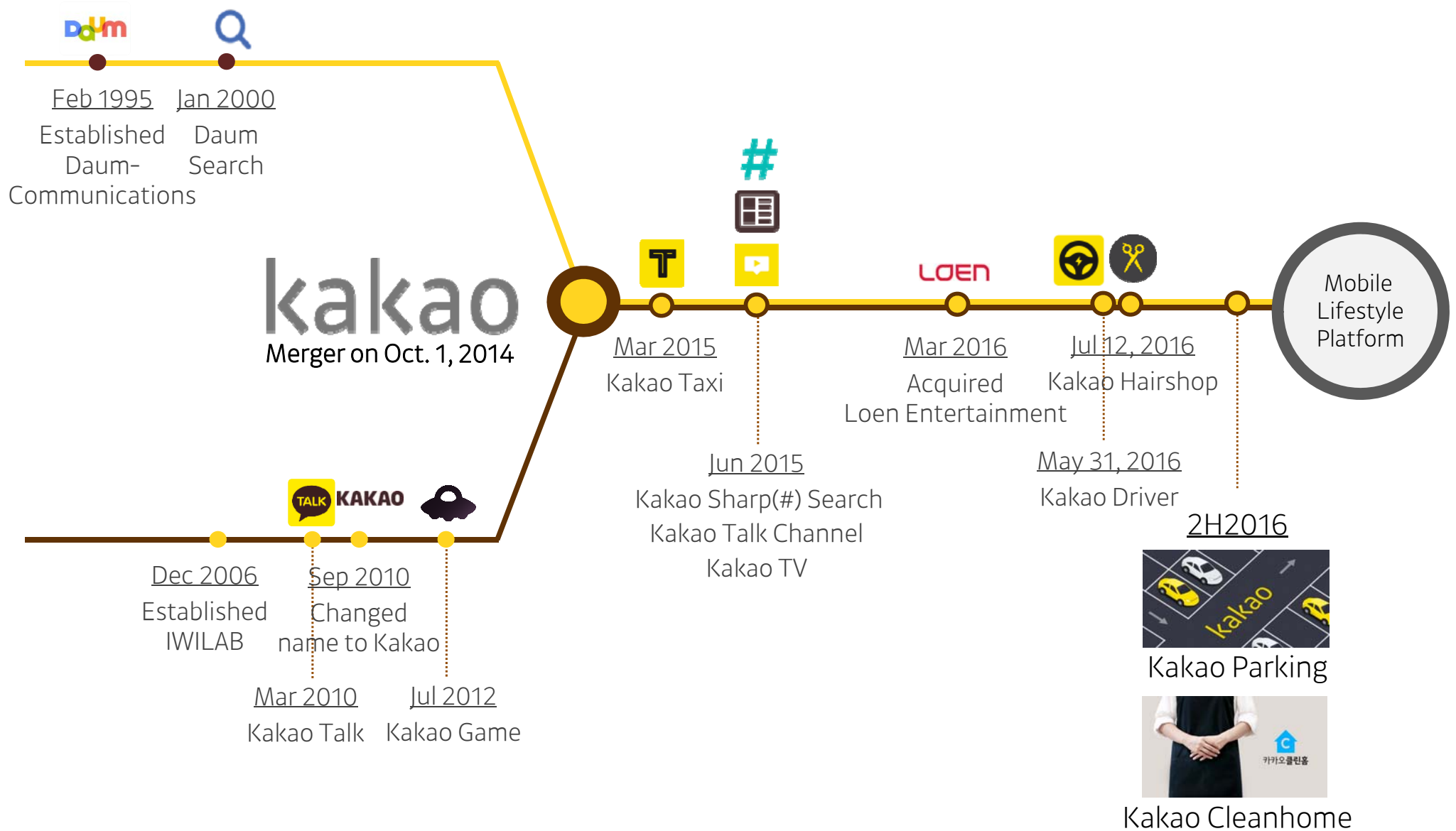
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[Appendix] 2Q 2016 Earnings Results

# Milestone



# Company Vision & Business Area

## Vision

**Connect Everything**  
Kakao

## Business Area & Strategy

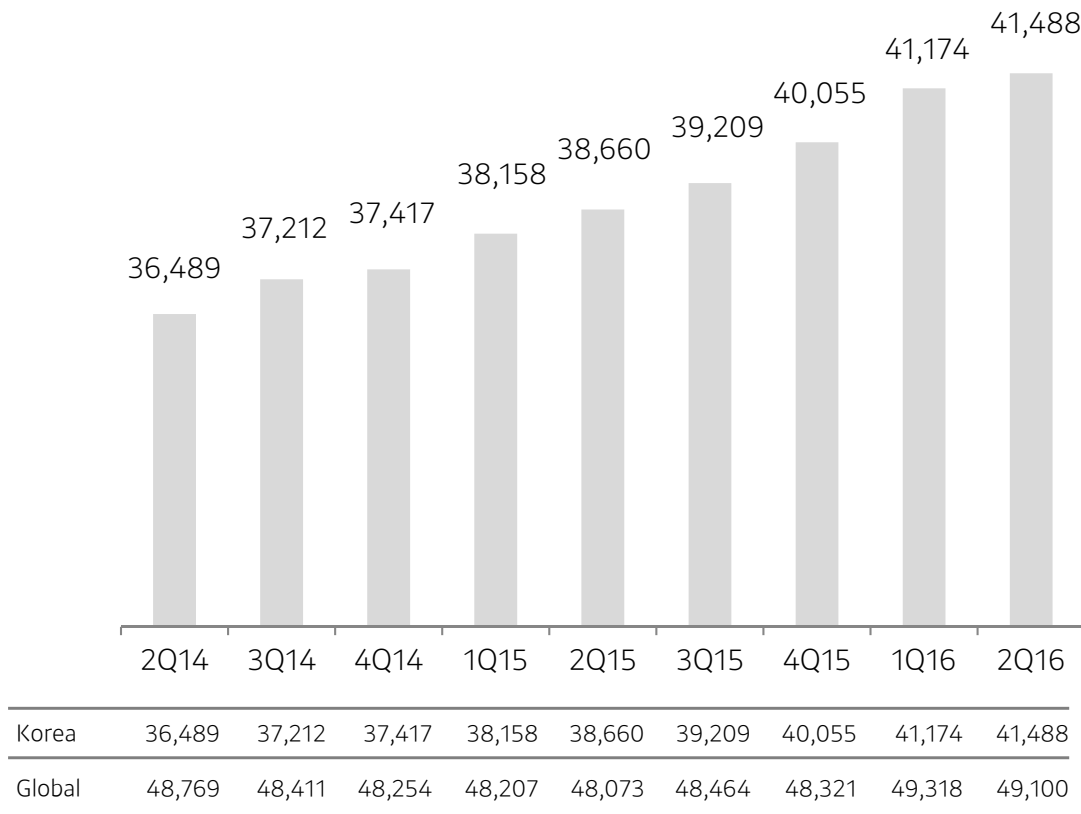
- ✓ Secure innovative advertising monetization models for mobile
- ✓ Successfully launch O2O platform as service and business
- ✓ Create user value through the content (games, music, etc.)



# Communications

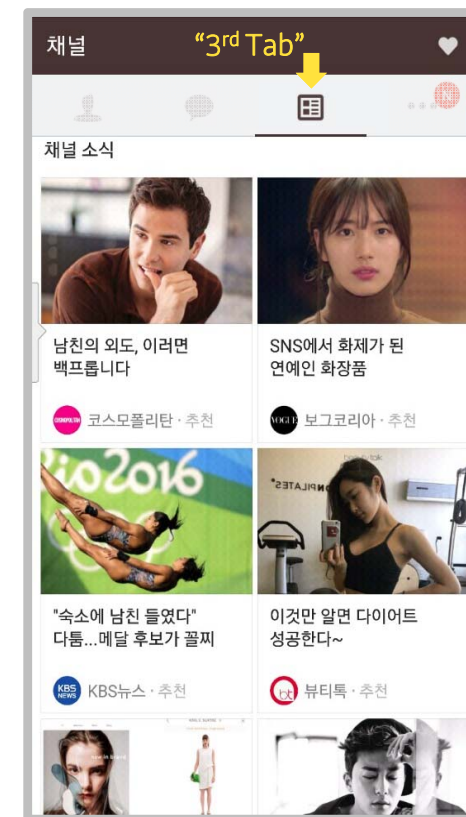
- Continue to grow Kakao Talk domestic active users: +314K QoQ (Total 49mn MAU including 41mn domestic users)
- Talk Channel, a service offered through Kakao Talk's 3<sup>rd</sup> Tab is expanding on the user experience for consumption of content, now has more than 26mn MAU

Monthly Active Users(000)



Average of monthly MAUs. Global includes domestic MAUs.

KakaoTalk 3<sup>rd</sup> Tab(Talk Channel)



[Kakao Talk Features]

1<sup>st</sup> Tab : Friends list

2<sup>nd</sup> Tab : Chatting list

**3<sup>rd</sup> Tab : Talk Channel**

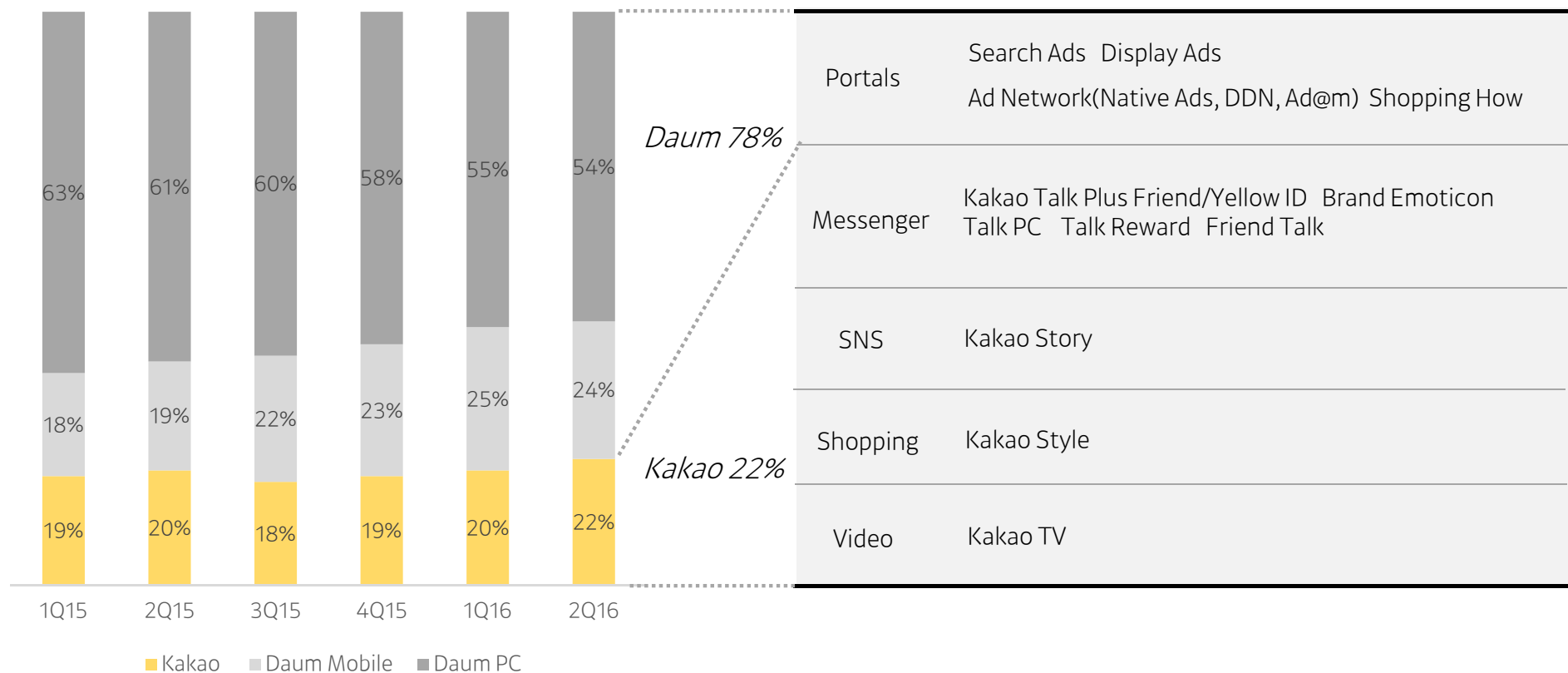
4<sup>th</sup> Tab : More (Game, Giftshop and etc.)

# Advertising

- Advertising revenue consists of 78% Daum Portal(PC 54%, mobile 24%) and 22% Kakao platforms
- Improved features such as #(Sharp) Search and Talk Channel on Kakao Talk to expand advertising tools on mobile messenger platform
- Microtargeting for advertisers to engage with users in creative and innovative ways via high-quality content advertising

Revenue Breakdown by Platforms

Ads Product Line-ups

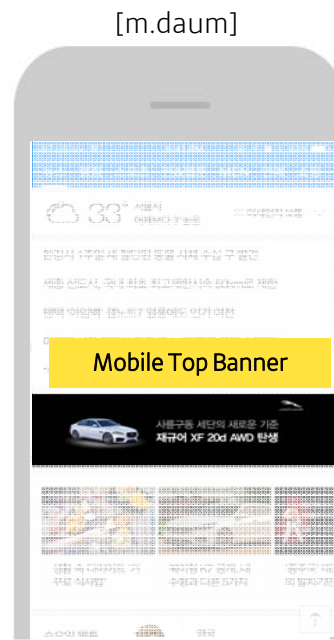
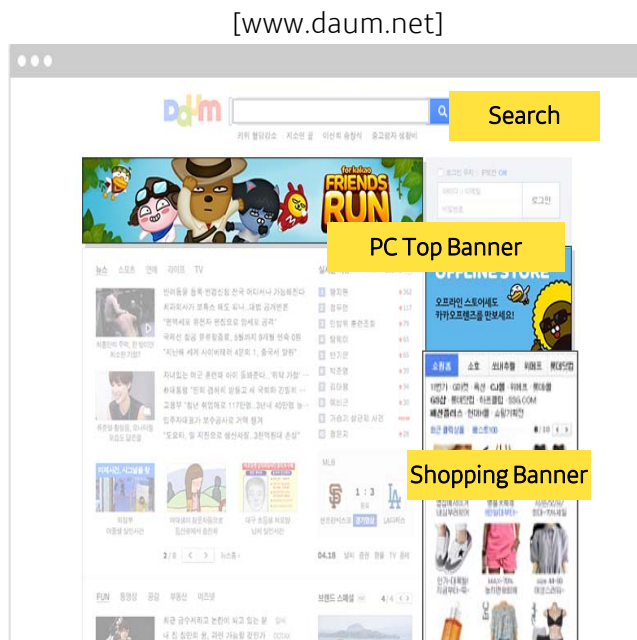


# Advertising\_Daum(Portal) Ads

- PC ads revenue was down due to ongoing restructuring of the internal and external networks and decreased PC traffic
- Start showing Native ads on Daum mobile portal and Talk Channel on Kakao Talk from March 2016
- Plan to launch Ad exchange product in 3Q 2016 for Daum portals' ads space optimization

## Daum PC/ Mobile Ads Products

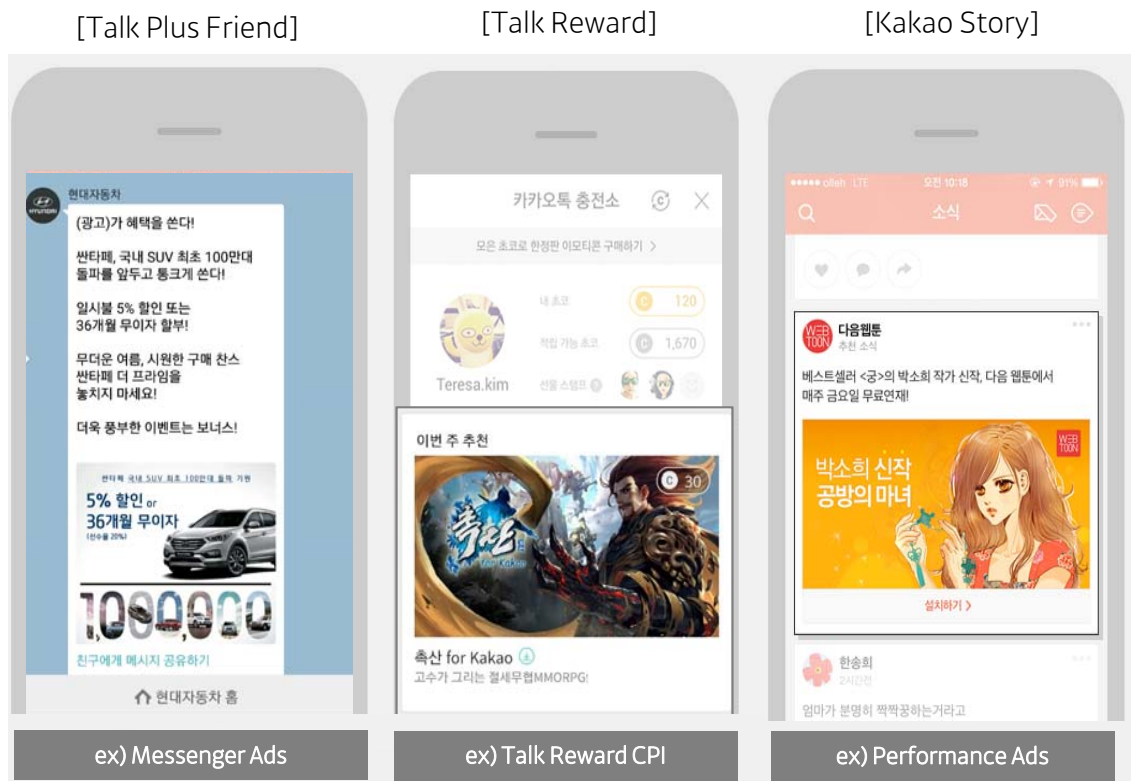
## Native Ads



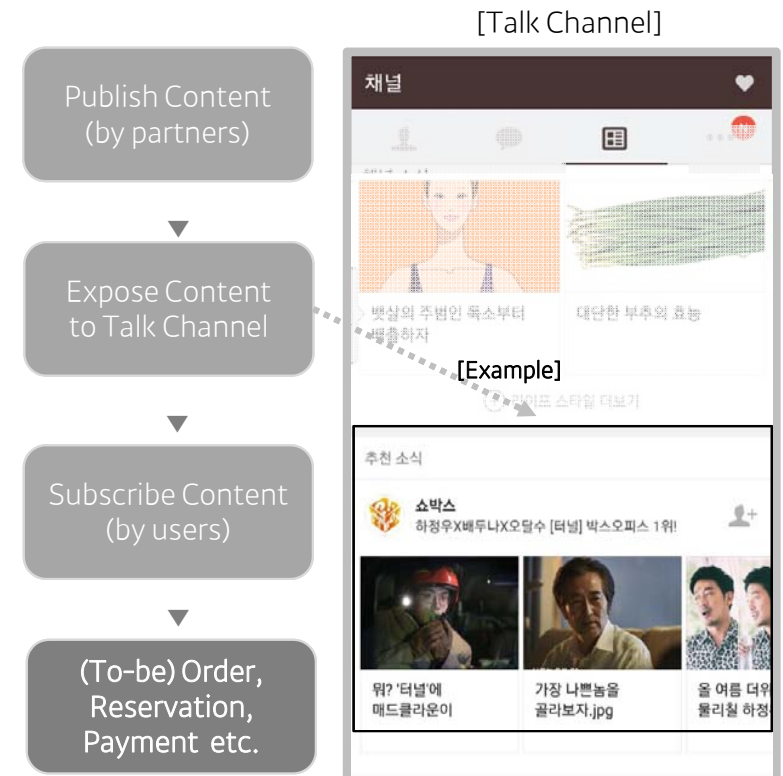
# Advertising\_Kakao Ads

- Kakao ads accounts for 22% of total advertising revenue in 2Q 2016 (Kakao Talk, Kakao Story and Kakao Style account for 43%, 38% and 19% respectively)
- Good revenue growth in reward advertising, Kakao Talk Reward on the 4<sup>th</sup> Tab, launched in February 2016
- Launching new version of Plus Friend, enabling a wider array of mobile messenger ads options for business partners to choose from

## Kakao Ads Products



## New Plus Friend





# Content\_Game

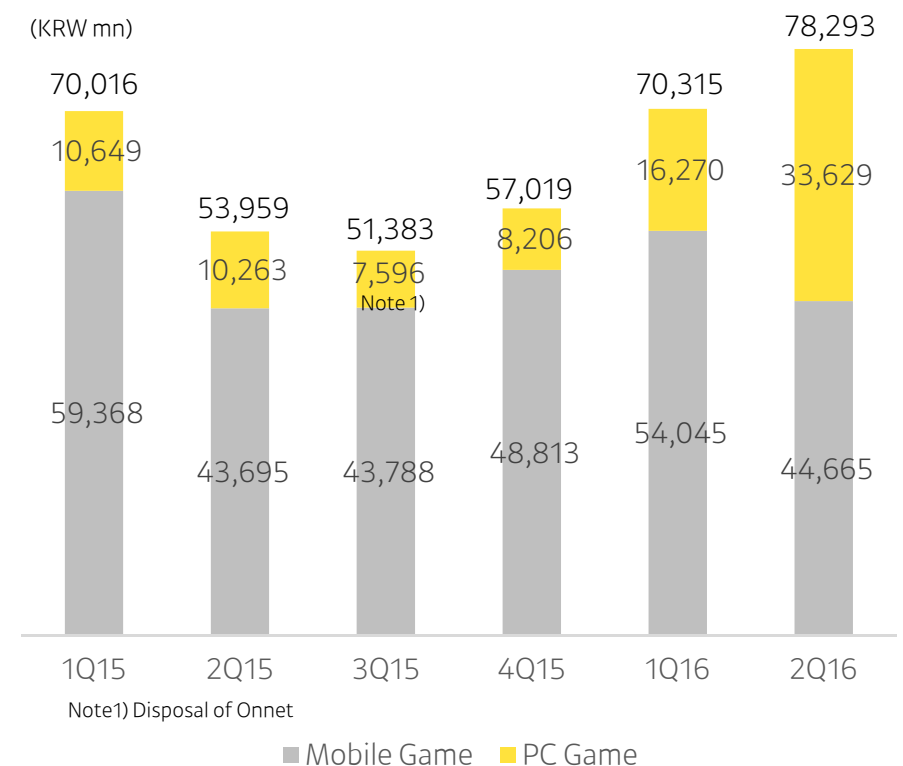
- Mobile game to develop marketing capabilities through AD+ and game tab(2H), and enhance game content through publishing
- 3Q line-ups: Anipang Poker(channeling, July 5), Miracle Nikki(publishing, July 5), My Home (publishing, August 7), Friends Sachunsung(pre-registration)
- PC game revenue continues to grow due to Black Desert's success in overseas. Low seasonality impact in 3Q and turnaround in 4Q.

Top Grossing Games (As of Aug. 18)

(Source: Google Play Store)

No	Rank	Title	Publisher	New
1	1	Seven Knights	Netmarble	
2	2	Everybody's Marble	Netmarble	
3	3	Dragon Blaze	Gamevil	
4	5	Anipang 2	SundayToz	
5	7	Friends Pop	NHN Pixelcube	
6	8	Magic & Sword	Lungtu Korea	New
7	9	Monster taming	Netmarble	
8	10	Miracle Nikki	Kakao	New
9	12	Anipang Poker	SundayToz	New
10	13	My Home	Kakao	New

Revenue Trend by Platforms



# Content\_Music

- Acquired 76.4% stake in LOEN Entertainment, which runs No.1 digital music service platform MelOn, in March 2016
- Continue to make synergies by combining core competencies of Kakao and LOEN in 2H



## Loen Buisness Overview

- ▶ Digital music service(B2C)  
: Korea's No.1 digital music platform MelOn
- ▶ Music distribution/Content aggregation(B2B)  
: Korea's No.1 K-Pop content distributor
- ▶ Labels & artist management(Production)  
: Korea's Top #5 production company

## Loen Key Metrics

- ▶ 2Q 2016 Revenue 110.4bn KRW, OP 20.6bn KRW
- ▶ 7.2mn MelOn MAU in July, 2016
- ▶ No.1 in digital music service with 60% market share

## Synergy with Kakao

User

User increase and user experience enhancement  
by utilizing two companies' assets

→ ex. Apply Kakao ID, Kakao Pay

Technology

Service improvement by adopting high-level  
technology

→ ex. Recommendation tech, music recognition  
tech, big data processing tech

Marketing

Marketing/promotion based on Kakao platform

→ ex. Kakao Friends emoticon marketing

Content

Content distribution expansion

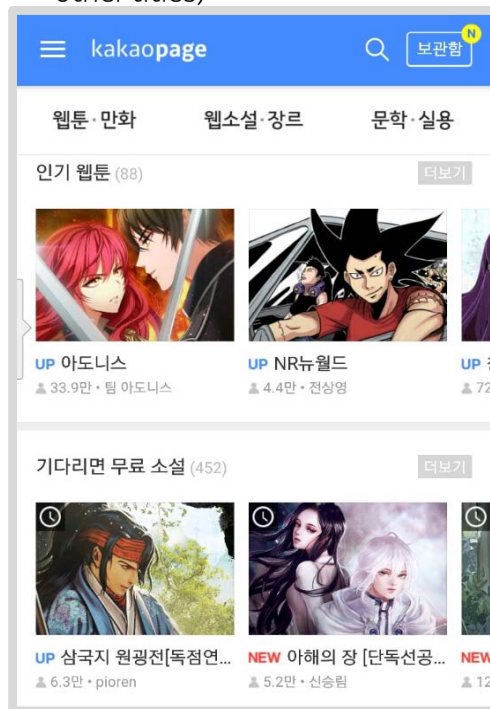
→ ex. Talk Channel, Daum Search and etc.

# Content\_Others

- Kakao Page, No.1 distribution platform of web novels/comics, achieved 18% of quarterly average growth over the past year
- Plan to adopt advertising model and introduce variety of usage model to expand users' content buying experience in 2H, targeting 100bn KRW annual transaction volume for 2016
- Daum Webtoon will accelerate its growth through the introduction of Kakao Page's proven monetization models, enhancement of advertising models, and enlargement of global IP

## Kakao Page

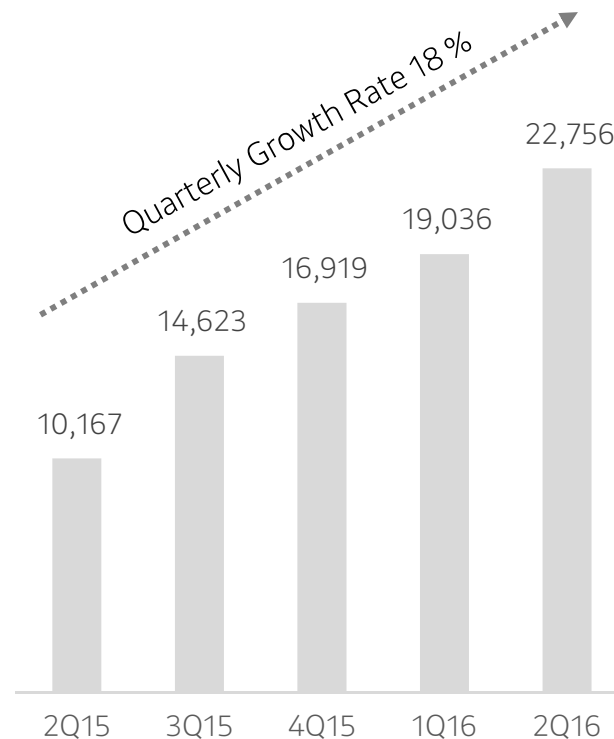
- ▶ 17,749 Titles available as of Aug, 2016 ( 5,360 cartoons, 9,165 novels, 3,224 other titles)



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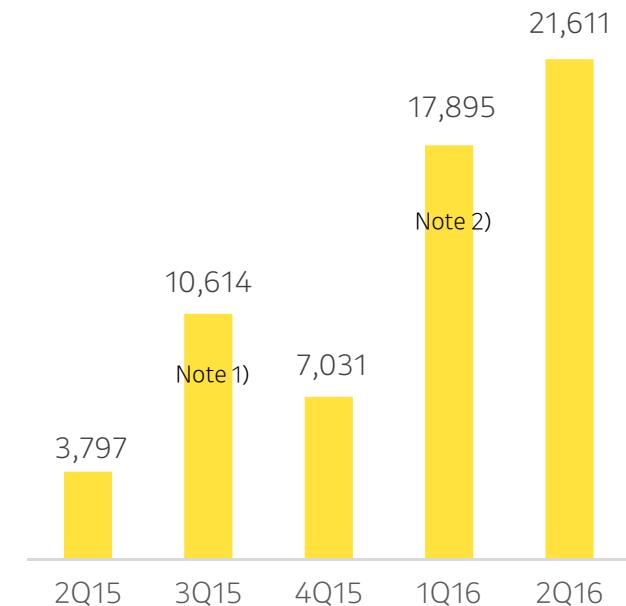
## Kakao Page Transaction Volume Trend

(KRW mn)



## Other Content Revenue Trend

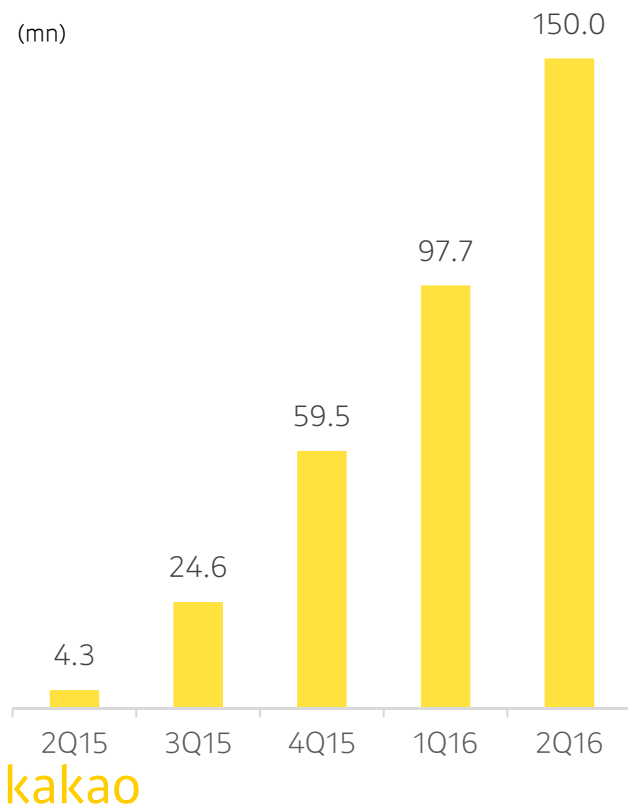
(KRW mn)



Note1) Accounting changes of Kakao Music and Kakao Page  
Note2) Consolidation of Podo Tree

- Kakao Taxi has secured more than 10mn users, 150mn cumulative calls and 250K drivers. Start monetizing with test drive event, while reviewing other various opportunities
- Kakao Taxi Black's daily call number has increased more than 5 times since the adoption of offline payment in March. Plans to increase vehicles and expand coverage into Seongnam city and Busan city in 2H
- Plan to launch new O2O services for transportation, home in 2H

## Accumulated Kakao Taxi Calls



## Kakao Taxi Test-drive Marketing

- ▶ Volkswagen test-drive marketing on Kakao Taxi platform from 5th of July (free ride of Volkswagen vehicles for randomly selected Kakao Taxi users)
- ▶ Discussing test-drive marketing with domestic/foreign motor companies



## New O2O Initiatives



**Kakao Driver**  
: Designated driver service launched on May 31



**Kakao Hairshop**  
: Reservation and payment service for hair shops launched on July 12



**Kakao Parking**  
: Reservation and payment service for car parking, to be launched in 4Q



**Kakao Cleanhome**  
: Housekeeping service, apps to be launched in 4Q for supplier side, and 1Q17 for user side

# O2O\_Kakao Driver

- Kakao Driver is showing good growth trend, recording 1mn users, 2.7mn cumulative calls and 110K drivers as of August 10.
- Proactive incorporation of feedbacks from drivers and users, the completion rate is continuously increasing, which is now over 60%
- Continued marketing effort to maximize growth during the peak season (4Q)

## New Features of Kakao Driver

- ▶ Differentiated basic fares by regions (Jul 1)

### Tier 1

Seoul / Gyeonggi / Incheon  
KRW 15,000 + @

### Tier 2

Daejeon / Daegu / Busan  
KRW 12,000 + @

### Tier 3

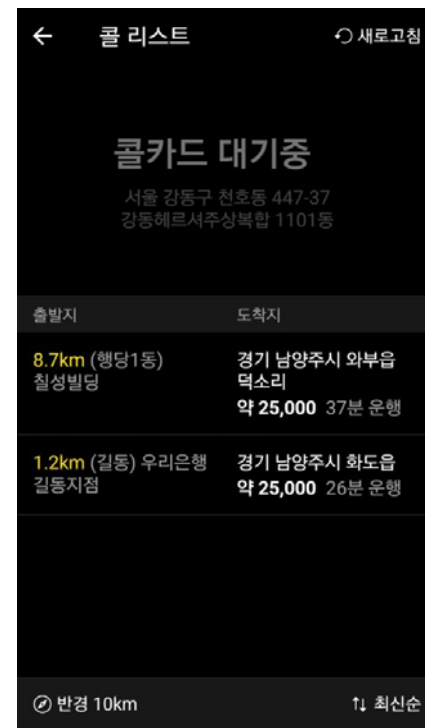
Other areas  
KRW 10,000 + @

- ✓ Applying differentiated basic fares depending on regional supply and demand
- ✓ @ Additional fare depending on time and distance

- ▶ Launched preferential allocation feature (Jul 21)



- ▶ Launched list view (Aug 4)



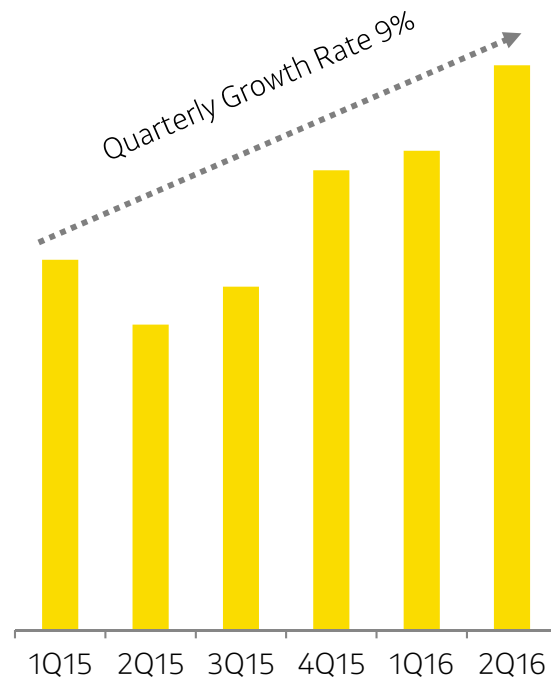
- ▶ Launched fixed fare set by the user (Aug 19)



# Commerce\_Gift Shop

- Successfully entered the mobile commerce market leveraging our strong user base built on Kakao Talk, offering 100K products from 2,000 brands
- Increase in gifting frequency, category expansion, and addition of payment options led to strong 9% quarterly revenue growth
- Self-gifting feature is becoming an integral part of the Gift Shop

## Gift Shop Revenue Trend

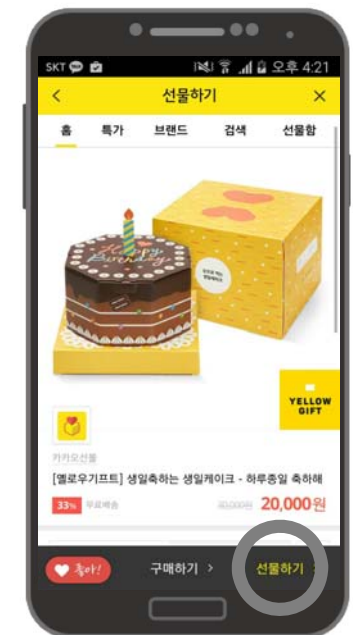
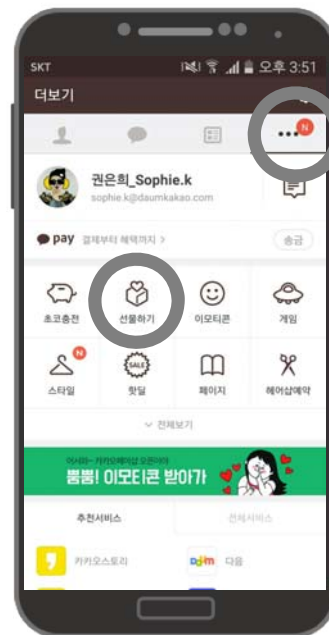


## Kakao Talk Gift Shop

▶ Embedded menu to Kakao Talk which facilitates users gifting

▶ Gifts range from coffee vouchers, to electronics for package delivery

▶ Allows users to send gifts and coupons to Kakao Talk friends



# Commerce\_Kakao Friends

- Kakao Friends Corp. is a company that spun off of Kakao in May 2015 in effort to strengthen specialty in the character business
- Operates 18 Kakao Friends stores in 15 cities around the country
- Expansion of product line, IP licensing and collaboration with multiple brands including LG Care, Coca Cola, Friends Game series, Samsung Publishing, etc.

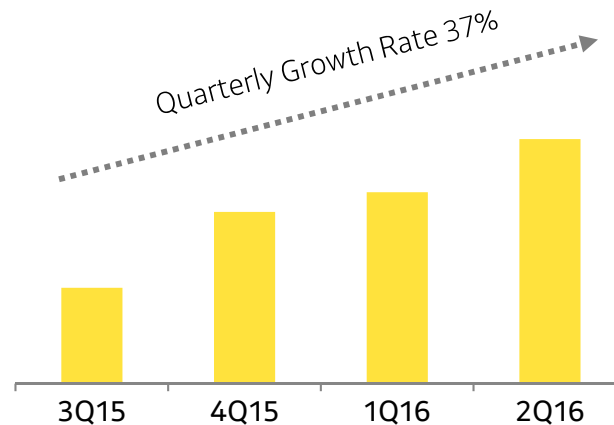
## KAKAO FRIENDS

- ▶ Kakao Friends are the most popular characters in Korea that have been used as a means of communication during Kakao Talk chats



kakao

## Revenue Trend of Kakao Friends



[Kakao Friends Corp.]

- ▶ Spun off of Kakao in May 2015
- ▶ Specialty in brand stores, collaborations, licensing, IP games and more.

## Kakao Friends Offline Stores

- ▶ 18 Kakao Friends stores in 15 cities
- ▶ Open First flagship retail store in GangNam, drawing more than 15,000 visitors every day
- ▶ Plan to open a second flagship store in Seoul



© Kakao Corp.



# Fintech

- Kakao pay continues to grow its transaction volume with major merchants and satisfies users by expanding its service features into other verticals such as money transfer
- Kakao Bank is in the process of building online banking systems before getting the final approval within 2016
- Kakao plans to take the leadership and increase the stake beyond current level (10%) when a revision to the current Banking Act (Article 16-2) passes

## Kakao Pay Key Metrics

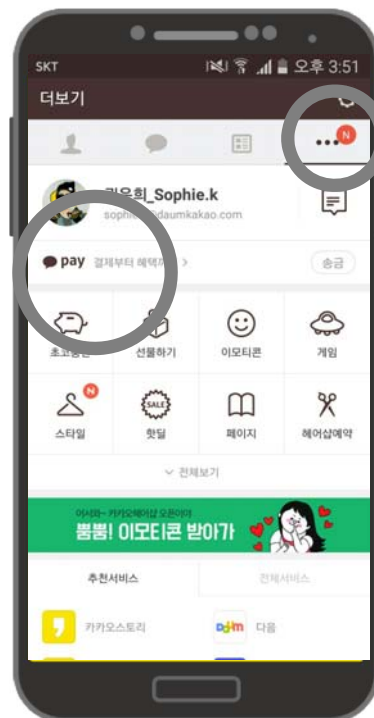
- ▶ More than 11 mn users
  - ▶ Compatible with 1,100 merchants
  - ▶ 60% of Kakao Talk Gift Shop transaction
- (As of Aug. 2016)

## Kakao Pay Service List

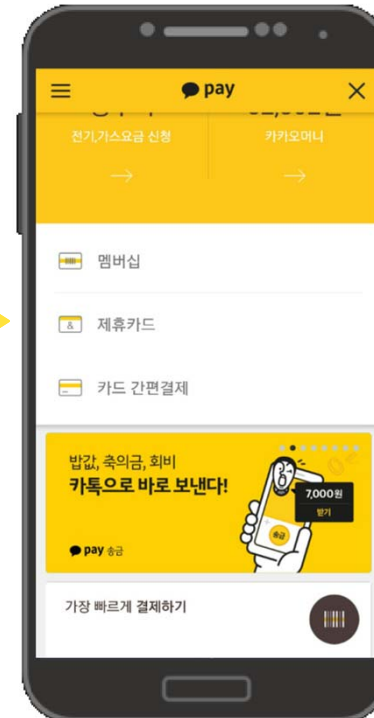
- ▶ Online purchases with pre-registered credit/debit cards and phone bill
- ▶ Automatic credit card billing
- ▶ Membership management
- ▶ Public bill payment(Feb. 2016)
- ▶ Money transfer feature (Apr. 2016)

## Kakao Pay Usage Examples

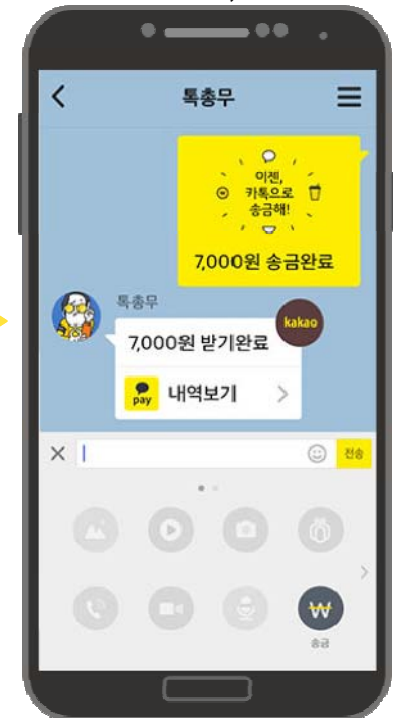
▶ Kakao Talk 4<sup>th</sup> Tab



▶ Kakao Pay Main Page



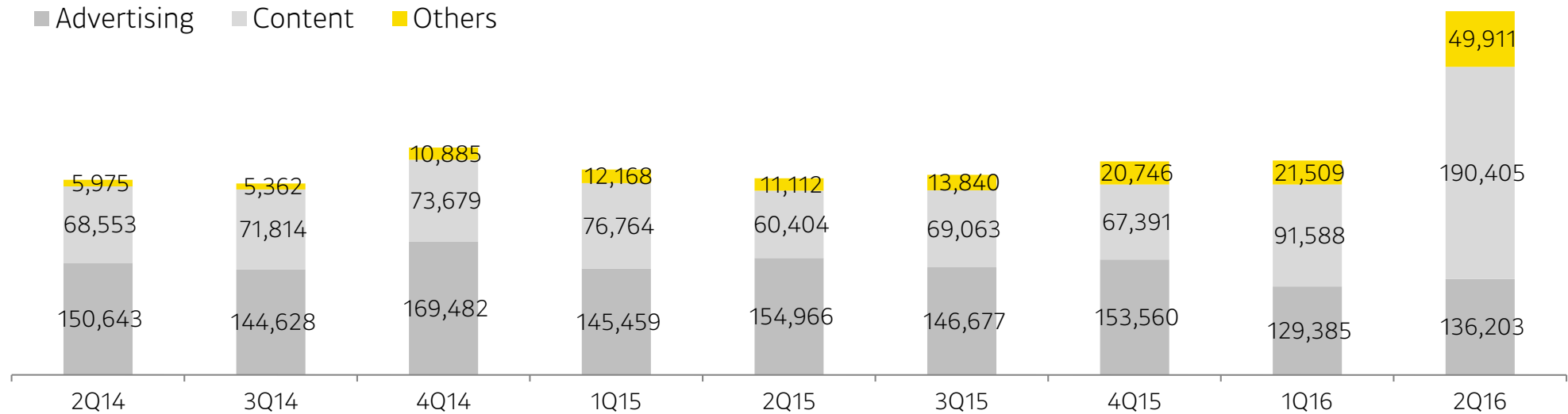
▶ Kakao Money





# [Appendix] Earnings Results - Revenue

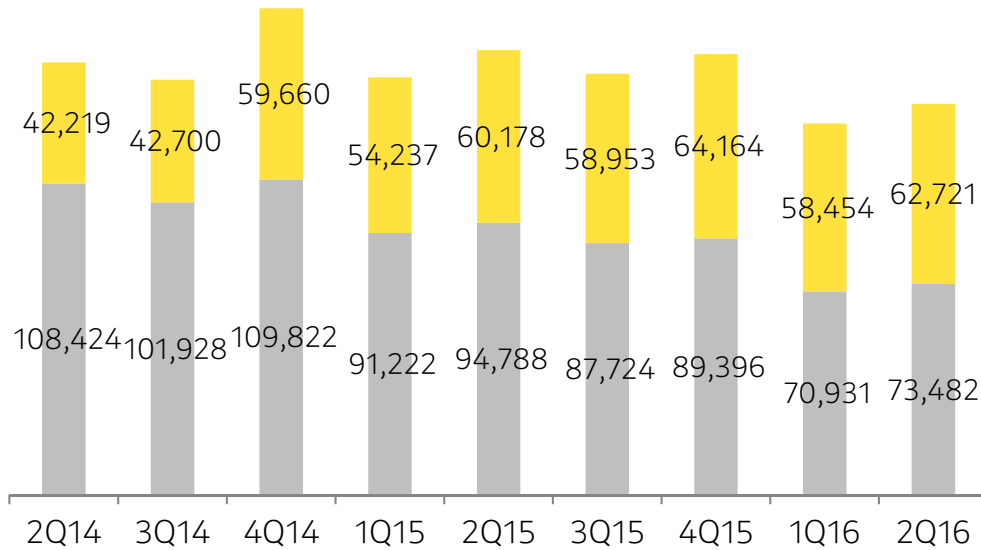
Quarterly Revenue Breakdown (KRW mn)



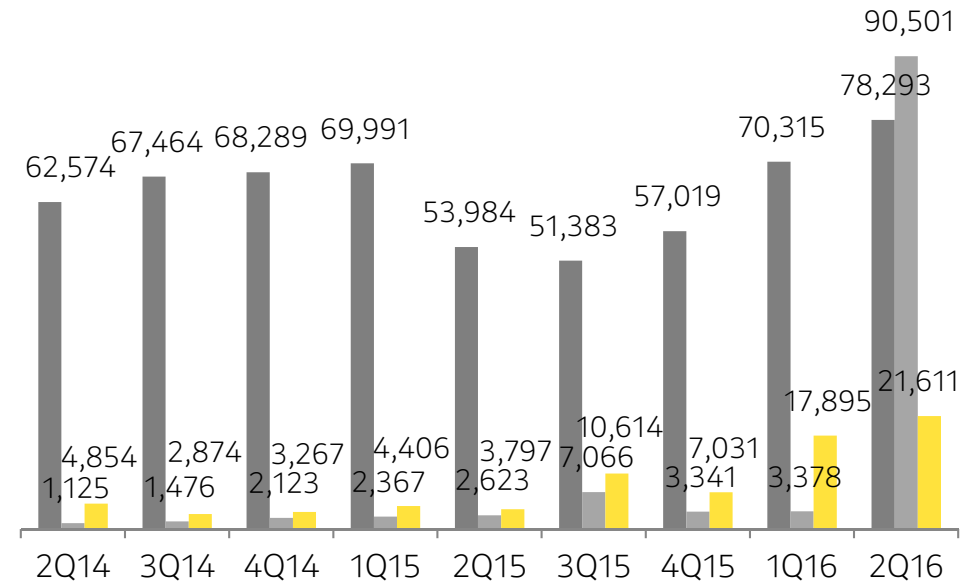
Categories	Services	Brands
Advertising	Portals Messenger SNS Shopping Video	Daum PC Daum Mobile Kakao Talk Plus Friend/Yellow ID Brand Emoticon Talk PC Talk Reward Friend Talk Kakao Story Kakao Style Kakao TV
Content	Game Music Webtoon • novel Emoticon	Kakao Game Kakao Games Melon Kakao Music PodoTree Kakao Page Daum Webtoon Talk B2C Emoticon
Others	Commerce O2O Fintech Miscellaneous	Kakao Talk Gift Shop Kakao Friends Makers with Kakao Kakao Farmer Kakao Taxi • Black Kakao Driver Kakao Hairshop Park Here Kakao Pay Notification Talk Loen Entertainment (content, production, etc.)

# [Appendix] Earnings Results - Revenue Breakdown (Unit: KRW mn)

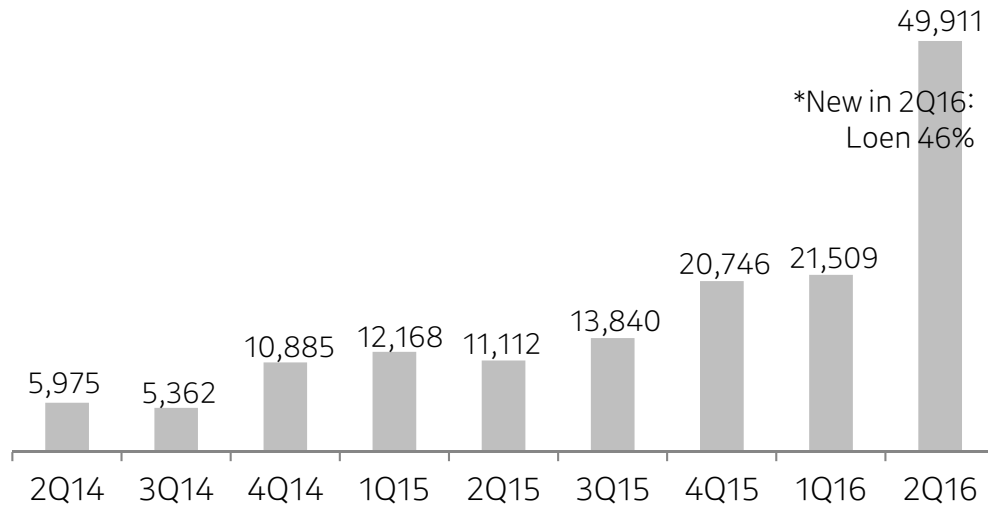
■ Advertising- PC ■ Advertising- Mobile



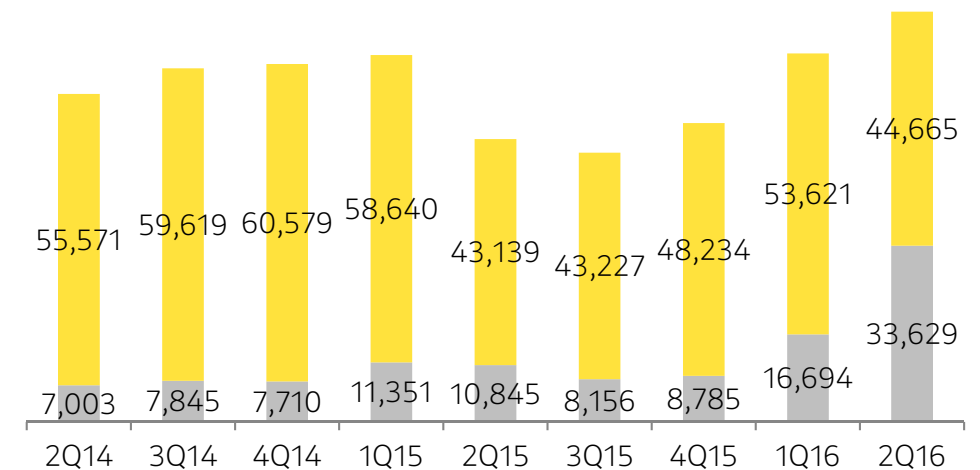
■ Game ■ Music ■ Other Content



Other revenue



■ Game- PC ■ Game- Mobile



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# [Appendix] Consolidated Financial Statements

## Consolidated Statements of Income

(in million KRW)	2Q15	3Q15	4Q15	1Q16	2Q16
<b>Revenues</b>	<b>226,482</b>	<b>229,580</b>	<b>241,698</b>	<b>242,483</b>	<b>376,519</b>
Advertising	154,966	146,677	153,560	129,385	136,203
Content	60,404	69,063	67,391	91,588	190,405
Game	53,984	51,383	57,019	70,315	78,293
Music	2,623	7,066	3,341	3,378	90,501
Webtoon/Novel/Emoticon	3,797	10,614	7,031	17,895	21,611
Others	11,112	13,840	20,746	21,509	49,911
<b>Operating Expenses</b>	<b>215,049</b>	<b>213,396</b>	<b>221,079</b>	<b>221,394</b>	<b>349,900</b>
Labor Costs	54,590	56,455	55,588	63,665	75,563
Fringe Benefits	17,337	12,813	10,934	10,448	16,001
Depreciation	12,333	12,375	12,937	13,005	14,460
Rental Fees	4,363	4,666	4,491	5,340	7,408
Commissions	57,780	65,494	66,001	64,923	142,980
Advertising	19,662	6,843	13,113	7,709	15,967
Bad Debt Expenses	394	8	1,123	814	-1,332
Amortization	5,911	7,099	7,346	8,487	16,718
Content Fees	11,398	15,626	12,695	17,369	19,655
Ad Agency Fees	25,177	24,450	26,327	20,580	20,937
Event Fees	312	148	560	116	374
Others	5,794	7,420	9,964	8,940	21,170
<b>Operating Profit</b>	<b>11,434</b>	<b>16,184</b>	<b>20,619</b>	<b>21,090</b>	<b>26,619</b>
Other Revenues	9,822	6,706	7,331	3,438	22,06
Other Expenses	12,925	4,611	5,727	5,839	5,179
Financial Income	18,240	3,543	4,870	3,756	9,081
Financial Expenses	951	325	2,090	3,276	9,351
Equity-method, Net	-756	284	-3,448	-2,513	-2,237
<b>Profit before Income Tax Expenses</b>	<b>24,863</b>	<b>21,782</b>	<b>21,554</b>	<b>16,656</b>	<b>21,139</b>
Income Tax Expenses	3,494	7,015	9,771	5,715	7,900
Net Profit from Continued Oper.	21,369	14,767	11,782	10,941	13,239
<b>Net Profit</b>	<b>21,369</b>	<b>14,767</b>	<b>11,782</b>	<b>10,941</b>	<b>13,239</b>
Net Profit of Controlling Interests	20,556	13,004	11,009	13,168	8,831
Net Profit of Non-controlling Int.	814	1,762	773	-2,227	4,408

## Consolidated Statements of Financial Position

(in million KRW)	2014.12.31	2015.12.31	2016.06.30
<b>Current Assets</b>	<b>798,291</b>	<b>970,067</b>	<b>998,303</b>
Cash and Cash Equivalents	451,228	397,177	473,466
ST Financial Instruments	184,548	373,389	208,740
Accounts Receivable	108,431	88,822	149,051
Other Current Assets	54,084	110,679	167,046
<b>Non-Current Assets</b>	<b>1,969,734</b>	<b>2,218,411</b>	<b>4,216,525</b>
Equity Method Investments	18,712	68,704	81,403
Tangible Assets	196,894	219,052	250,108
Intangible Assets	1,688,974	1,855,604	3,752,056
Other Non-current Assets	65,154	75,051	132,957
<b>Total Assets</b>	<b>2,768,025</b>	<b>3,188,478</b>	<b>5,214,829</b>
<b>Liabilities</b>	<b>227,488</b>	<b>316,078</b>	<b>715,677</b>
Trade and N-T Payables	109,126	89,506	186,158
Income Taxes Payable	20,680	29,448	20,877
Short-Term Debt	50	22,055	231,845
Other Current Liabilities	97,632	175,069	276,797
<b>Non-Current Liabilities</b>	<b>77,309</b>	<b>286,925</b>	<b>987,714</b>
Bonds	-	199,383	319,114
Bonds- CB/EB	-	-	475,674
Deferred Income Tax Liab.	50,083	48,636	145,359
Other Non-Current Liab.	27,226	38,905	47,567
<b>Total Liabilities</b>	<b>304,797</b>	<b>603,003</b>	<b>1,703,391</b>
Paid-in Capital	29,121	30,098	33,805
Capital Surplus	2,258,974	2,274,186	3,024,611
Capital Adjustments	-26,268	-9,032	-11,050
Accum. Other Compre. Inc.	2,114	829	1,619
Retained Earnings	190,678	256,313	268,289
Non-controlling Interests	8,609	33,081	194,165
<b>Total Equity</b>	<b>2,463,228</b>	<b>2,585,475</b>	<b>3,511,438</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,768,025</b>	<b>3,188,478</b>	<b>5,214,829</b>

# [Appendix] Financial Statements (Kakao Only)

## Statements of Income

(in million KRW)	2Q15	3Q15	4Q15	1Q16	2Q16
<b>Revenues</b>	<b>210,648</b>	<b>211,516</b>	<b>219,619</b>	<b>203,027</b>	<b>206,774</b>
Advertising	146,163	140,376	148,492	124,481	130,580
Content	50,115	60,917	57,435	63,958	56,644
Game	43,695	43,238	47,063	51,562	42,726
Music	2,623	7,066	3,341	3,378	2,991
Webtoon/Novel/Emoticon	3,797	10,614	7,031	9,018	10,928
Others	12,958	8,655	12,268	13,163	19,550
<b>Operating Expenses</b>	<b>194,802</b>	<b>185,369</b>	<b>185,416</b>	<b>173,069</b>	<b>191,670</b>
Labor Costs	43,865	46,369	42,455	45,349	48,830
Fringe Benefits	15,226	10,642	8,550	7,927	11,693
Depreciation	11,969	12,012	12,219	12,354	12,793
Rental Fees	1,916	1,977	1,816	2,205	2,525
Commissions	55,045	58,018	57,930	55,595	57,520
Advertising	18,813	4,954	10,716	3,885	8,418
Bad Debt Expenses	408	-23	1,034	908	116
Amortization	5,129	5,378	5,338	5,800	5,906
Content Fees	11,266	15,476	12,489	10,863	11,722
Ad Agency Fees	24,687	23,676	25,767	20,012	21,152
Event Fees	304	134	492	110	359
Others	6,173	6,756	6,611	8,061	10,635
<b>Operating Profit</b>	<b>15,846</b>	<b>26,147</b>	<b>34,203</b>	<b>29,958</b>	<b>15,105</b>
Other Revenues	1,333	1,109	3,632	1,660	960
Other Expenses	4,909	21,425	5,418	2,980	6,197
Financial Income	2,759	3,842	1,780	3,557	6,427
Financial Expenses	929	178	1,696	1,788	8,510
<b>Profit before Income Tax Expenses</b>	<b>14,101</b>	<b>9,495</b>	<b>32,500</b>	<b>30,407</b>	<b>7,784</b>
Income Tax Expenses	-1,148	8,251	11,346	7,054	4,628
Net Profit from Continued Oper.	15,249	1,244	21,154	23,353	3,157
<b>Net Profit</b>	<b>15,249</b>	<b>1,244</b>	<b>21,154</b>	<b>23,353</b>	<b>3,157</b>

## Statements of Financial Position

(in million KRW)	2014.12.31	2015.12.31	2016.06.30
<b>Current Assets</b>	<b>720,011</b>	<b>718,533</b>	<b>425,410</b>
Cash and Cash Equivalents	392,871	190,785	204,013
ST Financial Instruments	172,796	361,809	57,090
Accounts Receivable	106,018	87,162	78,672
Other Current Assets	48,326	78,778	85,636
<b>Non-Current Assets</b>	<b>2,036,753</b>	<b>2,398,531</b>	<b>4,320,305</b>
Equity Method Investments	148,110	474,327	2,340,016
Tangible Assets	193,359	210,393	207,762
Intangible Assets	1,651,658	1,652,605	1,705,271
Other Non-current Assets	43,626	61,205	67,256
<b>Total Assets</b>	<b>2,756,764</b>	<b>3,117,064</b>	<b>4,745,715</b>
<b>Liabilities</b>	<b>218,353</b>	<b>265,747</b>	<b>541,632</b>
Trade and N-T Payables	107,084	91,748	112,297
Income Taxes Payable	20,268	24,581	9,785
Short-Term Debt	-	-	230,942
Other Current Liabilities	91,000	149,419	188,608
<b>Non-Current Liabilities</b>	<b>76,662</b>	<b>276,435</b>	<b>846,564</b>
Bonds	-	199,383	319,114
Bonds- CB/EB	-	-	448,012
Deferred Income Tax Liab.	51,114	44,394	45,704
Other Non-Current Liab.	25,548	32,658	33,736
<b>Total Liabilities</b>	<b>295,014</b>	<b>542,182</b>	<b>1,388,196</b>
Paid-in Capital	29,121	30,098	33,805
Capital Surplus	2,258,975	2,291,486	3,056,102
Capital Adjustments	-23,507	-9,032	-11,050
Accum. Other Compre. Inc.	-342	244	101
Retained Earnings	197,502	262,086	278,560
<b>Total Equity</b>	<b>2,461,749</b>	<b>2,574,882</b>	<b>3,357,519</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,756,764</b>	<b>3,117,064</b>	<b>4,745,715</b>