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Value Research of HYBE Entertainment

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Abstract: With the development of economic globalization, Korean entertainment companies occupy an increasingly important position in global entertainment. Under the fierce competition among Korean entertainment companies, HYBE has created several standouts K-pop groups in the past few years, thereby breaking the pattern of the three major entertainment companies, YG, SM, and JYP. HYBE has attracted a predominantly youthful crowd mainly with its unique music aesthetic, versatile group styles, and frequent returns, and has made efforts to expand its presence from the Korean domestic market into the U.S. market, where it has become a major player. It is also trying to expand its sales from the Korean domestic entertainment market to overseas markets, mainly the United States. Despite the controversy surrounding some of HYBE's groups, which has raised the company's operational risk, the company's groups have gradually gained a significant position in global entertainment. This article analyzes the value of HYBE from the perspectives of profitability and business analysis, describes the current state of the company's development, and explores the reasons for its steady growth.

Keywords: Profitability assessment, Business analysis, Korean Pop Company.

1. Introduction

In these years, HYBE has become one of the biggest entertainment companies. Although before that, YG, SM and JYP had been the three top entertainment firms in South Korea for a long time, after the blooming popularity of a man group named BTS in 2018, the total profit of its subsidiary Big Hit has reached the sum of those three companies for several years. Even having this positive foundation, HYBE revenue climbed 21% on Seventeen and BTS Solo projects in 2023.

Although there was a plummet in the total sales for the first quarter, with stable digital streaming, the company is still able to maintain stable performance. As a result, HYBE's digital sales surged by 50% in the first quarter in 2024. Their revenue and operating profit basically include revenue from album sales, shows, advertising, and other activities for those K-pop teams, with the remaining part coming from indirect participation in sales such as merchandise, content and fan clubs. HYBE relies heavily on the proportional allocation between the various activities mentioned above to keep the growth of company's profits. Nowadays, the popularity of the K-pop teams from HYBE becomes more powerful. Despite contradictions and controversies in some branches, the company was able to try to maintain a normal state of profitability. So, it is educational to learn how this company works and how they kept to having a continuously growing revenue and operating profit.

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Firm valuation is an important aspect of financial analysis, since it influences investment decisions, market perceptions, and strategic planning. Recent research has examined a variety of characteristics that influence corporate valuation, including inventive efficiency, firm visibility, ESG profiles, funding, auditor quality, diversification, environmental information disclosure, and political influence. This summary combines the findings of eleven research studies to provide a complete and understandable review of the factors and implications of firm valuation.

As measured by the ratio of granted patents to R&D capital, Innovative efficiency considerably increases a company's market value. This effect is more evident in high-tech businesses with strong intellectual property protections. Securities analysts and institutional investors have an important role in communicating information about creative efficiency, eliminating information asymmetry, and so enhancing firm value [1]. Through advertising, media coverage, and investor relations programs, Firm visibility significantly impacts liquidity and valuation, especially for thinly traded assets. Increased visibility improves trading immediacy and valuation by approximately 28.4% in illiquid markets. This highlights the importance of strategic efforts to enhance firm visibility to mitigate liquidity-related valuation discounts [2]. What's more, environmental, Social, and Governance (ESG) profiles are increasingly influential in firm valuation. Firms with strong ESG performance tend to have higher enterprise value to sales (EV/Sales) ratios and overall market valuations. Investors value firms with robust ESG practices, leading to improved financial performance and reduced risk [3].

Particularly in technology startups, Capital funding has a significant impact on market valuation. Private equity and subsequent funding rounds (Series B and C) enhance valuation, but raising excessive capital can have negative effects. This indicates a U-shaped relationship between capital raised and firm value, emphasizing the need for optimal funding levels to maximize market valuation [4].

Those with industry-specific expertise, the quality of individual auditors positively influences firm valuation. High-quality auditors improve financial reporting, which facilitates external monitoring and deters managerial misuse of resources. This effect is more pronounced at the individual auditor level than the audit firm level [5]. Especially in partially privatized firms, Industrial diversification positively impacts firm valuation.. Sell-side analysts often react more pessimistically to bad news compared to good news, leading to an undervaluation of firms experiencing negative events. This behavior significantly impacts firm valuation, especially when analysts revise their earnings forecasts and stock recommendations downward in response to bad news [6].

In the new media environment, effective disclosure of environmental information positively affects firm valuation. Firms that transparently communicate their environmental practices through digital platforms tend to have higher market valuations. This transparency builds investor trust and highlights the firm's commitment to sustainability [7]. Political influence including regulatory changes and government interventions significantly affects corporate valuation. Firms with strong political connections or those in politically sensitive industries may experience higher volatility in their market valuations. Understanding the political landscape is essential for accurate firm valuation, as political risks can substantially impact financial performance [8]. Diversified firms often exhibit higher Tobin's Q ratios, indicating better market performance. However, government-controlled firms do not benefit as much from diversification, underscoring the role of ownership structure in the value impact of diversification strategies [9]. Firm-specific climate risks, such as regulatory changes and physical climate impacts, are increasingly considered by investors. Firms with higher exposure to climate risks tend to have lower market valuations. Incorporating climate risk assessments into valuation models is essential to reflect potential future liabilities and operational disruptions accurately [10].

This synthesis of recent research underscores the multifaceted nature of firm valuation. Key determinants include innovative efficiency, firm visibility, ESG profiles, funding strategies, auditor

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quality, diversification, environmental information disclosure, political influence, analyst reactions to news, and climate risk. Each factor uniquely contributes to firm valuation, highlighting the need for a comprehensive and nuanced approach to financial analysis.

This paper describes and analyzes HYBE Entertainment's basic profitability and sales-oriented business as a means of examining HYBE's specific profitability levels. It is also hoped that the following analysis will give a general idea of HYBE's profitability level among Korean entertainment companies and find the reasons for its steady growth. Financial Analysis The financial analysis of HYBE aims to evaluate the profitability and solvency of it, one of a leading entertainment company in South Korea. The analysis utilizes data from HYBE’s financial statements, including the balance sheet, income statement, and cash flow statement, to provide an understanding of the company's financial health.

2. Profitability Assessment

2.1. Net profit

Net profit for HYBE has shown variability over the years. In 2019, net profit was ₩724.2 billion, which increased to ₩870.6 billion in 2020 and further to ₩1,408.3 billion in 2021. However, in 2022, net profit declined significantly to ₩480.3 billion, reflecting potential challenges or one-time expenses that impacted profitability. In 2023, net profit rebounded to ₩1,834.5 billion, indicating a strong recovery and improved profitability. HYBE's net profit has shown an overall upward trend despite some fluctuations. The significant increase in net profit in 2023 demonstrates the company's ability to recover from setbacks and enhance profitability. This variability underscores the importance of managing both operational efficiency and external factors that can impact net profit (Table 1).

Table 1: The Net Profit of HYBE

Year	Net Profit (₩100M)
2019	724.2
2020	870.6
2021	1,408.30
2022	480.3
2023	1,834.50

2.2. Gross Profit Margin

According to Table 2, HYBE's gross profit has shown substantial growth, rising from ₩2,015.4 billion in 2019 to ₩10,090.1 billion in 2023. This increase in gross profit is driven by significant growth in sales, which expanded from ₩5,872.2 billion to ₩21,780.9 billion over the same period. The rising sales indicate HYBE's expanding market presence and successful business strategies. The trend of increasing gross profit and sales demonstrates the company's ability to effectively manage production costs and capitalize on market opportunities, leading to enhanced profitability over the years.

Table 2: The gross profit and gross profit margin of HYBE

Year	Gross Profit (₩100M)	Sales (₩100M)	Gross Profit Margin
2019	2,015.40	5,872.20	34.32%
2020	3,747.50	7,962.80	47.05%
2021	6,230.00	12,559.30	49.61%

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Table 2: (continued).

2022	8,426.40	17,761.50	47.45%
2023	10,090.10	21,780.90	46.31%

Gross Profit Margin (GPM) is a key indicator of a company's financial health. It is calculated by dividing gross profit by sales. It measures the efficiency of production and pricing strategies. For HYBE, the GPM was 34.32% in 2019, reflecting moderate efficiency in generating profit from sales. In 2020, the GPM improved significantly to 47.05%. This indicates better cost management and pricing strategies. In 2021, the GPM further increased to 49.61%, reaching its highest level during the period and showcasing HYBE's strong ability to control production costs and enhance profitability. By 2022, the GPM slightly declined to 47.45% but remained robust. This suggests continued effective cost management despite growing sales. In 2023, the GPM was 46.31%, indicating a slight decrease but still maintaining a high level of profitability.

HYBE's GPM has shown a positive trend from 2019 to 2023, increasing from 34.32% to 46.31%. This trend reflects the company's strong ability to manage production costs and implement effective pricing strategies, contributing to overall profitability. The slight fluctuations in GPM in the later years indicate the need for ongoing attention to cost control to sustain high profitability levels. In addition, according to Table 3, the 5-year average gross profit margin of HYBE has already surpassed the three major entertainment companies in Korea, which demonstrates that HYBE is able to maintain a high-quality level of profitability even with some operational volatility in the time area of operation studied.

Table 3: Five-Year Average of Gross Profit Margin of Korea's Three Major Entertainment Companies and HYBE

Company	5-yr Average of Gross Profit Margin
HYBE	44.95%
JYP	23.13%
SM	34.96%
YG	32.00%

HYBE's strong GPM underscores its effective financial management and robust profitability. HYBE's gross profit and sales have exhibited significant growth, showcasing the company's successful market expansion and effective cost management. This trend reflects the firm's strong profitability and its capability to capitalize on market opportunities, contributing to its overall financial health.

2.3. Operating Profit Margin

Operating income for HYBE has also increased significantly, from ₩987.4 billion in 2019 to ₩956.4 billion in 2023. This growth reflects the company's efficiency in generating profit from its core business activities. Despite some variability in operating expenses, HYBE has managed to maintain and improve its operational efficiency, contributing to the overall increase in operating income.

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Operating Profit Margin (OPM) measures a company’s operational efficiency by dividing operating income by sales. It indicates how well the company controls its costs and generates profit from its core business activities. For HYBE, the OPM was 16.81% in 2019, reflecting solid operational efficiency. In 2020, the OPM improved to 18.28%. It demonstrates enhanced efficiency in managing operating costs relative to revenue. However, in 2021, the OPM decreased to 15.15%. This indicates a slight increase in operating costs or less efficient cost management. The decline continued in 2022, with the OPM dropping to 13.34%, suggesting further challenges in controlling operating expenses amid rising sales. In 2023, the OPM slightly recovered to 13.57%. Although there is some improvement in operational efficiency, it still below the levels seen in 2020. Despite the fluctuations, HYBE managed to maintain a reasonable level of operating profitability (Table 4).

Table 4: The Operating Profit Margin of HYBE

Year	Operating Income (₩100M)	Sales (₩100M)	Operating Profit Margin
2019	987.4	5,872.20	16.81%
2020	1,455.20	7,962.80	18.28%
2021	1,902.50	12,559.30	15.15%
2022	2,369.10	17,761.50	13.34%
2023	2,956.40	21,780.90	13.57%

HYBE's OPM has shown variability from 2019 to 2023, peaking at 18.28% in 2020 and declining to 13.57% in 2023. This trend highlights the company’s efforts to manage operating costs while expanding its revenue base. The fluctuations suggest the need for ongoing efforts to improve cost control and operational efficiency to sustain higher profitability. In conclusion, while HYBE has demonstrated operational efficiency, maintaining and enhancing this efficiency will be crucial for future profitability.

While HYBE’s sales and operating income have both increased significantly, the Operating Profit Margin has decreased. This indicates that the rate at which operating expenses are growing is higher than the rate of revenue growth. Although the company is generating more revenue and higher absolute operating profits, its operating expenses (such as costs related to production, marketing, and administration) have risen more quickly, leading to a smaller proportion of each revenue dollar being converted into operating profit. While HYBE is expanding and achieving higher sales, it faces challenges in controlling operating costs effectively relative to its revenue growth, which impacts the operating efficiency reflected in the margin. Therefore, addressing operational inefficiencies and managing expenses more rigorously is also crucial for HYBE.

Overall, the development trend of profitability has been upward, with consistent growth in gross profit and operating income. This also reflects the company's effective financial and operational management.

2.4. Connection Between Decreasing D/E Ratio and Stable Profitability

The decrease in HYBE’s Debt-to-Equity (D/E) ratio from 1.09 in 2019 to 0.72 in 2023. This reduction in leverage generally lowers financial risk, as the company is less burdened by debt obligations and interest payments (Table 5).

Table 5: The Debt-to-Equity Ratio of HYBE

Year	Total Liabilities (W100M)	Total Shareholders' Equity (W100M)	Debt-to-Equity Ratio
2019	1,894.70	1,735.20	1.09
2020	7,255.00	11,989.40	0.61

Table 5: (continued).

2021	18,423.30	28,865.90	0.64
2022	19,417.50	29,286.80	0.66
2023	22,357.70	31,099.10	0.72

Despite the decrease in the D/E ratio, HYBE has maintained and even improved its profitability levels, as evidenced by the significant growth in gross profit, operating income, and net profit. This is because that HYBE has effectively used its equity financing to invest in growth opportunities and manage its costs efficiently. The company's ability to generate substantial profits while lowering its reliance on debt highlights its strong financial management and operational effectiveness. This strategic shift towards a more equity-financed structure has allowed HYBE to maintain a healthy balance sheet and sustain its profitability levels amidst a growing market presence and expanding operations.

3. Business Analysis

3.1. The strengths and opportunity of HYBE

According to Santi Nurul Adha and Muhammad Sugiharto, share prices can be influenced by sales growth and it is related to the stability of a company [11]. And according to the statement of HYBE from 2020 to 2023, HYBE has a good outlook with a continuously increase in sales.

Table 6: The Sales of HYBE from 2020 to 2023

(Million Won)	Sales	Album	Performance	Advertisements & Appearance Fees	MD & Licensing	Content	Fan Clubs
2020	796283	320619	4603	46798	259032	132286	32946
2021	1257740	378465	45284	100737	317245	370380	45629
2022	1776154	551989	258167	161830	395554	341500	67113
2023	2178088	970463	359111	141899	325563	289872	91181

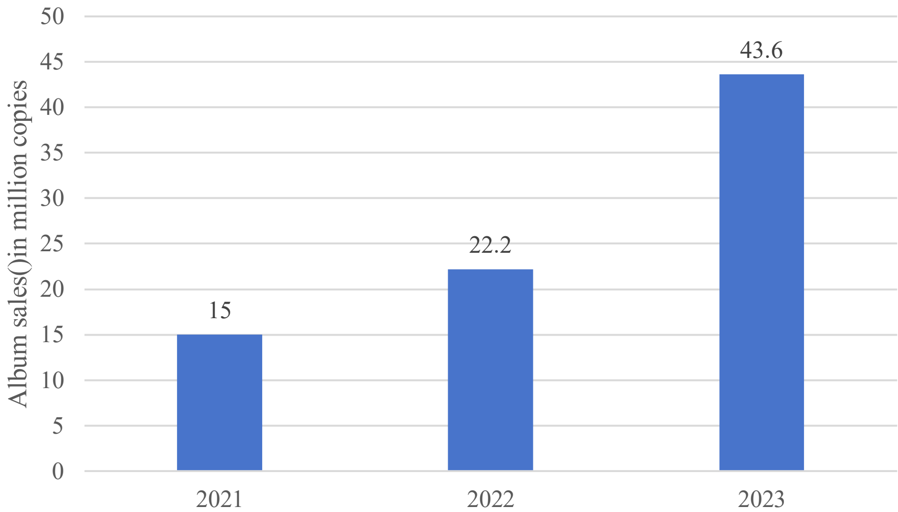

Figure 1: Album Sales of HYBE

Table 7: 2023 Album Sales

	Artist	Sales (in thousands)
1	Seventeen	15936
2	Stray Kids	10675
3	Tomorrow X Together	6505
4	NCT Dream	4861
5	NewJeans	4261
6	ENHYPEN	3882
7	NCT 127	3855
8	ZEROBASEONE	3855
9	IVE	3802
10	aespa	2460
11	Ateez	3286
12	JungKook	2706
13	V	2248
14	Twice	2067
15	Treasure	1975
16	Le Sserafirm	1953
17	EXO	1901
18	NMIXX	1874
19	Jimin	1746
20	THE BOYZ	1531

From Table 6, it can see that the sales of album play an important role in the total sales, and despite the solo activities of the members of BTS, sales can still be in the top 20 of the entire Korean entertainment industry. Moreover, four groups belonging to HYBE's companies have reached the top 6 in terms of album sales, according to Figure 1 and Table 7, which shows that HYBE already has a certain share of the album market. HYBE's album sales, even without the support of BTS, still reached almost double from 2022 to 2023 due to the explosion of New Jeans and Seventeen flopping again, which is a huge advantage for them in the market. Therefore, with some market share already in place, what they are ought to do is continuing to strengthen the groups, broaden the group's style, improve the quality of their albums, and increase the frequency of their return as well, rather than buying fake audio airplay for a weak and recently debuted group, which not only depletes the bottom line but also increases the spread of negative news and raises the risk of the company's operations, as the negative reports have illustrated.

3.2. The Weaknesses and Threaten HYBE Facing

When fast updates of girls' and boys' teams cause a lack of the good ability of singing performances, there comes a large amount of negative news about the vocal abilities of these groups. For example, the attendance Coachella music festival of LE SSERAFIM, which brought a passive effect of the selling of fan meeting tickets of them, compelling them to slow down the group activities. And this also brought a large amount of expense to pay for the judge fees.

It is clearly that there was a surge of debt-to-equity ratio from 2022 to 2023. The reason why there was a dramatic growth is that two controlled companies, which named SOURCE MUSIC and ADOR, separately launched two girl groups, Le Sserafirm and NewJeans. And owing to the launch and advertisement of these two groups, coupled with the cessation of BTS group activities, according to

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the Figure 2 and Table 8, the growth of almost all kinds of operating expense increased considerably, which is the core reason of the decrease of net profit and operating profit margin. These weaknesses absolutely brought a huge instability to the stock prices and there will be diverse potential problems to influence the future development of HYBE.

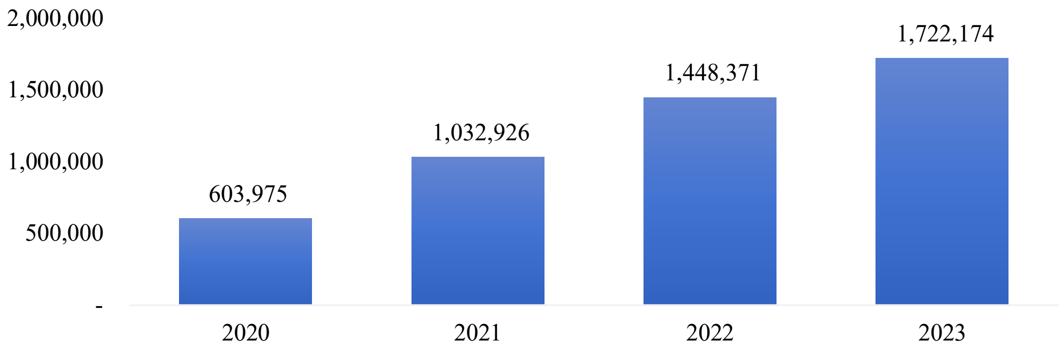

Figure 2: The Total Expense of HYBE

Table 8: Eight Kinds of Cost of HYBE from 2020 to2023

(Million Won)	Judge's Fee	Labor	Shipping Costs	Amortization Rent/Building Maintenance Fee	Rent/Building Maintenance Fee	Outsourcing Costs/Fees	Other Judge's Fees	Operating Profit
2020	229229.62	93405.08	49049.53	9306.48	25599.63	43721.31	8147.60	145515.65
2021	432281.94	177460.31	72216.04	40764.60	33883.18	84602.70	23355.11	190268.76
2022	605731.45	267849.85	81280.51	58903.76	39884.36	99642.35	58170.62	236907.93
2023	713164.70	356009.30	59742.35	67359.25	49868.94	120410.69	59774.19	295844.31

4. Conclusion

Above all, this paper focuses on understanding and analyzing the profitability level and business projects of HYBE Corporation. Through the above series of studies, this paper indicates that HYBE Corporation has excellent profitability, and its stability can maintain revenue stability through business diversification. The steady increase in gross profit margin shows that the company is in good operating condition, and its album sales, as the company's main revenue item, has been accelerating in the last four years from The steady increase in gross profit margin shows that the company is in good shape, and its album sales, as the company's main revenue item, has been accelerating in the last four years, and even has a tendency to double from 2022 onwards, which shows that the company's profitability strategy and management have shown a relatively good level. Although the Debt-to-Equity Ratio has fluctuated over the course of its development, which indicates a certain degree of volatility, it also suggests that the company has a good ability to self-regulate, for example, by compensating for the large expenditures for new releases through extensive global tours of existing popular groups. All these figures show that HYBE has a good management strategy that can be learned from other entertainment companies in the country and other countries.

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