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**NEXON Co., Ltd.** (3659.JP)

Q2 2016 Earnings Call

## CORPORATE PARTICIPANTS

Maiko Ara

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Shiro Uemura

*Representative Director and Chief Financial Officer*

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

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Han-Joon Kim

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Brett Moshal

*Orbis Investment Advisory Ltd.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to NEXON's 2016 Second Quarter Earnings Conference Call. Today's call is being recorded. At this time, I would like to turn the call over to Maiko Ara, Head of Global Investor Relations. Please go ahead, ma'am.

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Maiko Ara

*Head-Investor Relations, NEXON Co., Ltd.*

Hello, everyone, and welcome. Thank you for joining us today. With me are Owen Mahoney, President and CEO of NEXON, and Shiro Uemura, CFO. Today's call will contain forward-looking statements, including statements about our result of operation and financial condition, such as revenues attributable to our key titles; growth prospects, including with respect to the online game industry; our ability to compete effectively, adapt to new technologies, and address new technical challenges; our use of intellectual property, and other statements that are not historical facts.

These statements represent our predictions, projections, and expectations about future events, which we believe are reasonable or based on reasonable assumptions. However, numerous risks and uncertainties could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Information on some of these risks and uncertainties can be found in our earnings-related IR documents. We assume no obligation to update or alter any forward-looking statements.

Please note net income refers to net income attributable to owner of the parent as stated in NEXON's consolidated financial results. Furthermore, this conference call is intended to provide investors and analysts with financial and operational information about NEXON, not to solicit or recommend any sale or purchase of the stock or other securities of NEXON.

Please note we may be using Japanese-English interpretation during the Q&A session. A recording of this conference call will be available on our Investor Relations website, [www.ir.nexon.co.jp/en/](http://www.ir.nexon.co.jp/en/), following this call. Unauthorized recording of this conference call is not permitted.

I'd now like to turn the call over to Owen.

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## Owen Mahoney

*Representative Director, President and Chief Executive Officer*

Hello, everyone, and thank you all for joining us today.

Before we get into second quarter results, I'd like to offer a few comments regarding the recent reports about our founder in the media. In the Q&A after our prepared remarks, we are only going to take questions about the quarter and our outlook and not on this topic.

As you probably saw, we made a voluntary TSE timely disclosure on July 12 regarding the investigation by Korean prosecutors office in the NXC Corporation, its representative director Mr. Jungju Kim, and NEXON Korea. Subsequently, Mr. Kim was indicted on charges stemming from this investigation. NXC Corporation is a privately held corporation that is a major shareholder of NEXON. The indictment alleges that beginning in 2005, Mr. Kim provided financial benefits to a Korean prosecutor and received unspecified favors in return.

In response to this indictment, Mr. Kim resigned from his role as a director of NEXON. Mr. Dohwa Lee who was the director of both NXC Corporation and NEXON also resigned from his role as a director of NEXON, although no charges were brought against Mr. Lee.

The key point is that to our knowledge, NEXON is not implicated in the alleged transaction in any way. No charges have been brought or allegations made against NEXON or its subsidiaries. It would be inappropriate for NEXON to comment on what actions NXC Corporation may or may not have taken. However, we are fully cooperating with the authorities in their investigation, and we will keep you all updated as best we can.

It's worth reiterating that Mr. Kim has not been involved in the day-to-day operations of the company for many years since well before the IPO. By design and intention he set up years ago, the NEXON management team is independent, and we take our fiduciary responsibility to all our shareholders and stakeholders, and our integrity generally, extremely seriously. The focus of this management team and of all the employees of NEXON remains to create great online games and bring them to a massive worldwide audience. These media issues will not distract us from that mission.

Okay. Now getting to the FY 2016 first half financial results. First half revenues were ¥95.6 billion, up 1% year-over-year on an as-reported basis and up 15% year-over-year on a constant currency basis. Revenues were roughly flat year-over-year on an as-reported basis due to significant FX headwinds as the Japanese yen appreciated against our major functional currencies including the Korean won and the Chinese yuan.

Adjusted for the impairment loss on gloops' goodwill, we recorded in the first quarter of ¥22.6 billion. First half operating income would have been ¥39.7 billion, up 18% year-over-year on an as-reported basis and up 32% year-over-year on a constant currency basis. Including the impairment loss, first half operating income was ¥17.1 billion, down 49% year-over-year on an as-reported basis and down 35% year-over-year on a constant currency basis.

Adjusted for the impairment loss on gloops' goodwill, first half net income would have been ¥23.9 billion, down 24% year-over-year on an as-reported basis and down 13% year-over-year on a constant currency basis. Including the impairment loss, first half net income was ¥1.3 billion, down 96% year-over-year on an as-reported basis and down 85% year-over-year on a constant currency basis due primarily to FX losses from foreign-currency denominated cash deposits and trade accounts receivables in addition to the impairment loss.

Uemura-san will be reviewing our second quarter results and third quarter outlook later in the presentation. The second quarter was a good one strategically on many fronts, so let me now turn to some of our recent milestones on our progress toward our longer-term goals.

In July, we announced our strategic partnership with the Japanese game developer, Sansho Studio. Sansho Studio is renowned for their talented and experienced game development team who previously led development of some of the most popular franchises at CAPCOM, including Monster Hunter and Resident Evil. The partnership is consistent with our objective of delivering unique and high-quality games specifically for the Japanese market. Going forward, we plan to expand our partnerships with other highly talented game developers in Japan.

We also announced that our consolidated subsidiary, NEXON GT, entered into a definitive agreement to acquire 100% of wellgames, a Korean developer of the mobile first person shooter, SPECIAL SOLDIER. SPECIAL SOLDIER is unique, a high-quality FPS for mobile devices, and in a short time, they've garnered large and growing fan base. Looking forward, we're excited to see how these new partnerships will turn out and continue to seek more opportunities to work with best-in-class developers around the world.

Lastly, I'll turn to our pipeline for the second half and beyond. As many of you know, our pipeline remains extremely rich for both PC online games and mobile games. We believe we have one of the best pipelines in the industry, and we're thrilled to see these games reaching gamers across the world. We're preparing many games through in-house development, partnerships, and investments to meet the preferences of gamers in various regions worldwide.

As we touched on last quarter, in Japan, we plan to launch mobile native games on a monthly basis starting from July in the second half of 2016. These include Fantasy War Tactics, which we launched in late July, and Hide and Fire, which is a popular third-person shooter mobile game developed by Tencent. We recently started the pre-registration for this game as we near launch. In addition, our new PC online game, Tree of Savior, will start open beta test in late August in Japan.

As I said up front, the focus of this management team and employees of NEXON remains to develop and publish great online game content and bring those games to a massive worldwide audience. Our industry has been going through a considerable consolidation recently with high valuations going to companies that own and can develop great intellectual property.

NEXON already has some of the very biggest franchises in the industry, and we have been relentless over the last two years about building up a substantial pipeline of new games that we're now starting to launch.

With that, I'll turn it over to Uemura-san to run through the second quarter results and third quarter outlook.

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**Shiro Uemura**

*Representative Director and Chief Financial Officer*

Thanks, Owen. Now, let's move on to the Q2 results. Revenues were ¥38.1 billion, down 11% year-over-year on an as-reported basis and up 4% year-over-year on a constant currency basis. Operating income was ¥13.4 billion, and net income was ¥7.6 billion.

Second quarter revenues were within the range of our outlook for both PC online and mobile games. Operating income was also within the range of our outlook. The fact that revenues were at the low end of our outlook while operating income was at the high end was primarily due to the strong performance of our China business in addition to lower-than-planned variable costs and marketing costs. Net income was below our outlook mainly due to the FX loss in the U.S. dollar-denominated cash deposits in relation to Japanese yen appreciation against the U.S. dollar.

Turning to our performance by platform, second quarter PC online game revenues were ¥28.9 billion, down 11% year-over-year on an as-reported basis and up 5% year-over-year on a constant currency basis. Please refer to the reference material to the Investor Presentation for our selected performance metrics for PC online games.

Mobile revenues were ¥9.2 billion, down 9% year-over-year on an as-reported basis and up 2% year-over-year on a constant currency basis. As a reminder, about 70% of our mobile revenues are from native games.

Continuing on with second quarter regional highlights. Revenues for the China business were ¥15.6 billion, down 2% year-over-year on an as-reported basis and up 16% year-over-year on a constant currency basis. We conducted large-scale updates for Dungeon&Fighter in the second quarter, the Labor Day update in April and the 8th Anniversary update in June, which included an introduction of a new character. Both of these updates were well received by users.

As you all know, in the first quarter, revenue from Dungeon&Fighter significantly outperformed our outlook driven by exceptionally strong item sales in time for the Lunar New Year update. As a result, in the second quarter, we took measures to refrain from aggressive monetization, but revenue remained strong, thanks to well-received item sales in time for these updates.

As we usually see, MAUs for Dungeon&Fighter decreased quarter-over-quarter due to a typical seasonality in the second quarter. Nonetheless, the total number of paying users was roughly flat quarter-over-quarter. On a year-over-year basis, MAUs were roughly flat. On the other hand, paying users increased significantly year-over-year, thanks to the increased base of paying users which went up significantly in the fourth quarter of last year.

Dungeon&Fighter revenue for 2016 first half increased by a single digit percent year-over-year on an as-reported basis. As for Dungeon&Fighter, we continue to prioritize and focus on the game's stability and longevity. In June, we announced that we are scheduled to conduct a closed beta test for 2D Dungeon&Fighter mobile within 2016, a mobile action RPG game to be published in China by Tencent.

Revenues from the Korean business were ¥15.0 billion, down 8% year-over-year on an as-reported basis and up 10% year-over-year on a constant currency basis.

PC online game revenues were ¥10.6 billion, down 17% year-over-year on an as-reported basis and roughly flat year-over-year on a constant current basis. Mobile game revenues were ¥4.4 billion, up 26% year-over-year on an as-reported basis and up 51% year-over-year on a constant currency basis.

Revenues from key mobile titles such as HIT and DomiNations mainly contributed to the year-over-year growth. During the second quarter, we conducted the second closed beta tests of our in-house titles including Durango and Sangokushi Sousouden Online.

Revenues from our Japan business were ¥3.9 billion, a 29% decrease versus a year ago. Mobile revenues were ¥3.0 billion, a 25% decrease year-over-year and a 15% decrease quarter-over-quarter. Revenues decreased sequentially for both native games and browser games. PC online revenues were ¥0.9 billion yen, down 38% year-over-year and down 15% sequentially.

Revenues in North America were ¥1.7 billion, a 39% decrease versus a year ago on an as-reported basis and a 31% decrease on a constant currency basis. This decline was due to the difficult comparison with last year's second quarter when DomiNations was newly launched and off to a very strong start. When we launched the game, we made a significant marketing investment in it. This marketing spend was very successful in driving activity in the game and DomiNations performed exceptionally in last year's second quarter. Following that strong start, the game had issues scaling, and we lost users. I'm pleased to say that DomiNations is now very stable with targeted marketing that has been highly effective and efficient.

Our revenues in Europe and other regions were ¥1.9 billion, a 9% decrease versus year ago on an as-reported basis and a 4% increase on a constant currency basis. In April, we conducted the second closed beta test for the action adventure, MMORPG Riders of Icarus in North America, South America, Europe, and Oceania.

Now turning to our Q3 2016 outlook. For the third quarter of 2016, we expect revenues in the range of ¥38.4 billion to ¥41.3 billion, representing a 23% to 17% decrease year-over-year on an as-reported basis. On a constant currency basis, we expect revenues in the range of ¥43.7 billion to ¥47.1 billion, representing a 12% to 5% decrease year-over-year.

We expect operating income to be in the range of ¥10.6 billion to ¥12.9 billion. We expect net income to be in the range of ¥9.6 billion to ¥11.6 billion. For the third quarter, we expect some major currencies in our business, including the Korean won and the Chinese yuan to depreciate against Japanese yen by 13% and 20%, respectively, year-over-year.

As you are all aware, depreciation of these currencies against the Japanese yen would have a negative impact on our revenues, operating income and net income. As a reminder, we expect every one Japanese yen move against the U.S. dollar would have an impact of ¥0.35 billion on our revenue and ¥0.1 billion on our operating income. For simplicity, forex sensitivity is calculated based on the assumptions that Korean won and Chinese yuan move similarly against Japanese yen when there is an exchange rate movement in U.S. dollar and Japanese yen.

In China for third quarter revenue, we expect a 20-plus percent to high-teens percent decrease year-over-year on an as-reported basis and low-teens to high-single-digit percent decrease year-over-year on a constant currency basis.

Our major PC online game, Dungeon&Fighter, received a Tier 1 content update on July 14 in time for summer vacation. Also, the National Day Update is scheduled in September. The planned timing of the National Day Update for this third quarter is later than in last year in the third quarter on September 22. For this reason, the financial impact from this update is expected to be more in the fourth quarter than in the third quarter.

In Korea for third quarter revenues, we expect a 20-plus percent to high-teens percent decrease year-over-year on an as reported basis and a low teens to high-single-digit percent decrease year-over-year on a constant currency basis. We expect a year-over-year decrease in revenues from Korea primarily due to an expected decrease in revenues from key PC online games such as FIFA Online 3 and Sudden Attack.

We started service of our in-house PC online game, Sudden Attack 2, in July. While Sudden Attack 2 was a highly anticipated sequel to the popular FPS Sudden Attack, which we have serviced for over 10 years in Korea, we decided to discontinue it at the end of September as a result of the feedback we've had from users since launch. The game is simply not resonating for several reasons, and we believe our capital is better allocated elsewhere.

On the mobile side, we conducted a closed beta test for Epic of Three Kingdoms 2 in July. We also started the pre-registration for Atlantica Heroes on August 4. In Japan, we expect third quarter revenues to decrease 30-plus percent to 20-plus percent year-over-year on an as-reported basis.

On the mobile side, in-house developed simulation RPG game, Fantasy War Tactics, started service on July 28. Also, we started pre-registration for Hide and Fire, which is a publishing title developed by Tencent on August 10. On the PC online side, an open beta test for the MMORPG Tree of Savior is scheduled to start on August 24.

In North America for third quarter revenues, we expect low-single digit to low-teens percent increase year-over-year on an as-reported basis and 20-plus percent increase year-over-year on a constant currency basis.

For PC online games, an open beta test for the new MMORPG Riders of Icarus started on July 6. Also, an open beta test for Ghost in the Shell S.A.C. First Assault Online, an FPS based on the popular anime IP, Ghost in the Shell, started on July 28. On the mobile side, HIT, a blockbuster action RPG in Korea, launched in the North America on July 7.

In Europe and other regions for third quarter revenues, we expect a high-single digit to a high-teens percent increase year-over-year on an as-reported basis and a 20-plus percent to 30-plus percent increase on a constant currency basis.

As in North America, PC online games, Riders of Icarus and Ghost in the Shell S.A.C. First Assault Online were released into open beta tests in July. Also, mobile game HIT launched in Europe and other regions on July 7. It is off to a good start particularly in Asian countries including Hong Kong, Taiwan, Thailand, and Vietnam, which are included in other components of Europe and others.

In the third quarter, we expect an operating income to be in the range of ¥10.6 billion to ¥12.9 billion, showing a 42% to 30% decrease year-over-year. We expect Q3 operating income to decrease year-over-year, driven by a decrease in revenues in China and Korea, also negatively impacted by significant depreciation of the Korean won and the Chinese yuan against the Japanese yen.

A revenue decline in our China business with higher margin particularly impacts our operating margin due to the high margin of our revenue there. On the other hand, we expect this to be partially offset by lower variable costs, including royalty costs associated with third-party licensed games and lower amortization. While we expect new publishing titles such as global service of HIT to drive revenue increases, we expect lower sales from FIFA Online 3 and FIFA Online 3 M.

In addition, we expect lower royalty costs for DomiNations in relation to our acquisition of its developer, Big Huge Games, in the first quarter. We also expect lower amortization year-over year due to the completion of the amortization associated with Dungeon&Fighter IP.

Lastly, I'd like to give an update on the 2016 interim dividend. We are scheduled to pay out an interim dividend of ¥5 per share to shareholders registered on our shareholder register on our shareholder register as of June 30, 2016. Having shared that context on our performance and our outlook, we'll be happy to take your questions.

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## Maiko Ara

*Head-Investor Relations, NEXON Co., Ltd.*

Thank you, Uemura-san. Next, we would like to open up the lines to live Q&A.

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# QUESTION AND ANSWER SECTION

**Operator:** Today's question-and-answer session will be conducted live over the phone. [Operator Instructions] Our first question comes from Han-Joon Kim, Deutsche Bank. Please go ahead.

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## Han-Joon Kim

*Deutsche Bank AG, Hong Kong Branch*

Q

Hi, guys. Thanks for the call. Just two questions. I've noticed that LAPLACE LINK is now missing from the presentation. So, if you could just give us an update on what the status of that has been. And the second one pertains to Sudden Attack. Just want to get a comprehensive understanding of what you feel the impact has been from one, Overwatch, and two, Sudden Attack 2. So, how should we be thinking about Sudden Attack 1 and the comprehensive impact between those two games? So, I would assume that impacted your [indiscernible] (28:15) in 2Q and how they [ph] sort of stand out (28:16) in 3Q.

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## Shiro Uemura

*Representative Director and Chief Financial Officer*

A

Han-Joon, thank you for your question. It is indeed true that LAPLACE LINK does not appear on today's presentation material, but gloops is still working on this game, aiming at attaining very high quality. The reason why we did not include that in the presentation material is, as you know, we have so many titles in our pipeline, and we just wanted to include the titles that we focus on. So, once again, the fact that LAPLACE LINK does not appear on our presentation material does not mean that the development is over. We are still working on the development.

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## Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

Han-Joon, this is Owen. Your second question was about Sudden Attack 1 I believe and the impact from Overwatch and the impact from Sudden Attack 2. Just to provide some background on that, as you probably know from following it in Korea, we chose to make a transition from Sudden Attack 1 to Sudden Attack 2. In many respects, the features of Sudden Attack 2 are a continuation of Sudden Attack 1 and meaning, we move to a new graphics engine and we move to a new physics engine and we added some features. And that transition was rougher than we expected, move from Sudden Attack 1 to Sudden Attack 2, and we decided to close down Sudden Attack 2.

As for the impact on Sudden Attack 1 from Overwatch, I think anytime we're trying to do a transition and you try to make that transition, you're in a bit of a tricky situation and then with the timing with Overwatch turns out to be just very, very tough for us.

As far as how it goes, we're going to have to watch it from here but clearly, it wasn't our preferred outcome in terms of the Sudden Attack franchise. Having said that, we also have a robust pipeline of games. We have a strong position with our existing games, but we'll have to see how it goes with Sudden Attack 1 from here.

Han-Joon Kim

*Deutsche Bank AG, Hong Kong Branch*

Q

And finally, just to follow up on that briefly, I mean, during the transition, I'm just wondering if those gamers who have come back to Sudden Attack 1 are sticking around or as we attempted to transition them, have we somehow ended up losing them as we shut down Sudden Attack 2 and that we're not seeing a rebound back into the Sudden Attack 1. Just wondering what the latest data points have been after your announcement that you're going to shut down Sudden Attack 2.

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

So, at this stage, it's early days, Han-Joon. And it's tough to really tell. We certainly might have lost some of those. There is a lot of noise in the market right now. There are certainly a lot of players who have been big fans of Sudden Attack, and, obviously, Overwatch is a very different game in many respects from an FPS perspective or within the FPS genre. So, it's early days, but we're going to have to watch it closely because there is a lot of noise in the market right now and we'll have to see. My guess is that we've lost some.

Han-Joon Kim

*Deutsche Bank AG, Hong Kong Branch*

Q

Understood. Just one last follow-up. [ph] And I know (32:27) you guys would prefer to refrain from discussing this topic, but just in regards to what's been happening on the sort of investigation level. I'm a little bit more interested in the ramifications on employee morale and I guess, shareholder morale. I'm sure you guys have been fielding enough questions and message is as it is, but I still want to get a sense as to – I mean, on one part, we've all been seeing some level of delays in the game pipeline. And I know part of that is to ensure the quality of the games, but on the back of my mind, it's [indiscernible] (33:01). I'm just wondering if [indiscernible] (33:03) a limit of employee morale that gets impacted that causes games to get further delayed and whatnot and so forth. So, I mean, there is going to be [ph] a fallout (33:13). I just wanted to get a better assessment of how you guys are looking at it.

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

So, sure. Look, in terms of the investigation and we obviously are not in a position to comment about that at all, but as you know, for me (sic) [from reading] and the Korean press, it hasn't been the easiest month for us. But I want to emphasize something that I said up front in my prepared remarks. The management – the executive team and the employees are laser-focused on building great games that we're proud of and that are highly differentiated and delivering those to a very large global audience. And on behalf of all those employees, we are just very, very focused on that topic. So, I would be remiss in saying that it's fun to watch the news flow in the last month. That is definitely not the case. But we are very focused on our mission. Our mission is very clear, and that is what we're focused on. So, that's what I can say about the morale on the company.

Han-Joon Kim

*Deutsche Bank AG, Hong Kong Branch*

Q

Okay. Understood. Appreciate that. Thank you.

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

Thank you.

**Operator:** [Operator Instructions] The next question comes from Brett Moshal from Orbis. Please go ahead.

Brett Moshal

*Orbis Investment Advisory Ltd.*

Q

Hi, Owen. Thanks for the update. Two questions from me. First of all, as regards China, as we look at your Q3 outlook, does this indicate a deterioration in conditions in China particularly as you look at the results in the quarter to-date or is the decline merely a consequence of the scheduling of the updates? And also with respect to China and Korea, if you could just speak to the prospects for the D&F mobile launch and what you anticipate from that. And my second question relates to the share buybacks. I know that was something that was on the table. As you restructured your capital, what's the latest with respect to the team's timely opportunity given your large cash that you're holding and the fact that [ph] your stock passes (36:42) down, what are your thoughts on share buybacks?

Maiko Ara

*Head-Investor Relations, NEXON Co., Ltd.*

A

Hi, Brett. Thank you very much for your questions. Please give us a moment while we translate and...

Brett Moshal

*Orbis Investment Advisory Ltd.*

Q

Okay.

Maiko Ara

*Head-Investor Relations, NEXON Co., Ltd.*

A

...register within our company. Yeah.

Brett Moshal

*Orbis Investment Advisory Ltd.*

Q

Okay. Thank you.

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

Hey, Brett. Sorry for the delay there. Just really quickly on your first on China. The answer is the latter. It's about scheduling. And just I'd say an overall comment relative to Dungeon&Fighter in China, we're feeling very good about it. And so, this was really about the latter. This is about the timing and in the way that the days fell.

Regarding D&F mobile launch, 3D is – we're going to be doing a test this year in Korea. And so, it will start in Korea and then be going globally. The 2D version, we're going to be testing within 2016 in China. So, that's the

timing of that. Sorry. 3D, we're going to be launching in 2016, first Dungeon&Fighter mobile. And then the 2D, as I said, we'll be testing within 2016 in China, okay? And then regarding to your...

**Brett Moshal**

*Orbis Investment Advisory Ltd.*

Q

And...

**Owen Mahoney**

*Representative Director, President and Chief Executive Officer*

A

Go ahead.

**Brett Moshal**

*Orbis Investment Advisory Ltd.*

Q

...the expectations though with respect to D&F mobile. Is that a game that you're particularly excited about and when should we start to see the impacts on your income statement?

**Owen Mahoney**

*Representative Director, President and Chief Executive Officer*

A

Well, this is late this year. So, the impact that we see will be next year. In terms of how we're feeling about the game, I reviewed it most recently a few weeks ago. We're focused very hard on driving quality on this, and we feel like we're making terrific progress. So, it would be premature for me to talk about what we think the impact on financials would be. That's why we say very hard call, but we're feeling good about how the game is coming together.

And then you had a question about share buyback. Yes, I guess what I would say there is we continue to be very committed to shareholder returns, and we have a few ways to spend the cash position, which is large relative to our company size. One is by investing in game development and game launches. Second is in marketing. Third is in M&A and equity investments, and then fourth is in returning the money to shareholders in some form, either as buyback or as dividend. We're not in a position to talk about any changes in our policy at this time, but we remain focused on making sure that we do the right thing relative to our shareholders.

**Brett Moshal**

*Orbis Investment Advisory Ltd.*

Q

Yeah. Just on this, do you have all the authorities in place to do share buybacks so that you don't have to wait for an AGM together? So, if you find there's an opportune time, you could buy back your stock at anytime?

**Owen Mahoney**

*Representative Director, President and Chief Executive Officer*

A

[indiscernible] (40:47) authority, meaning, do we have...

**Brett Moshal**

*Orbis Investment Advisory Ltd.*

Q

Owen, I think I mean – yeah. Do you need to go back to your shareholders or is it just the board resolution that's required to buy back?

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

Share buyback, no, that does not require a board – it doesn't require shareholder resolution. It's only a board decision.

Brett Moshal

*Orbis Investment Advisory Ltd.*

Q

Great. Thank you. Thanks. That's all from me.

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

Thank you. Yeah. Thank you very much.

**Operator:** [Operator Instructions] The next question comes Brett Moshal from Orbis. Please go ahead.

Brett Moshal

*Orbis Investment Advisory Ltd.*

Q

Sorry. I had one other follow-up question. You stated – I think Uemura-san stated in the presentation that the MAU was stable. But if I look at the data you put in the presentation material, it looks like there is a very large decline quarter-on-quarter and even year-on-year. Just wondering what the difference is. Is it that presentation material refers to total MAU where you're talking about Dungeon&Fighter? And if so, what is the difference? You said Sudden Attack or is it something else?

Shiro Uemura

*Representative Director and Chief Financial Officer*

A

Hi. It is indeed true that MAU-wise you see a decline year-over-year, but this is not attributable to China Dungeon&Fighter. When I look only at China Dungeon&Fighter year-over-year, MAU is stable and you can see that MAU is trending to be relatively flat. And other than MAU, other KPIs pertaining to China Dungeon&Fighter are trending favorably. So, when you look at titles other than Dungeon&Fighter in China, we can say that Counter-Strike Online MAU-wise went down and also in Korea, FIFA Online 3 MAU went down slightly from the last update, which we conducted last year. And also, there were rollovers in...

Owen Mahoney

*Representative Director, President and Chief Executive Officer*

A

Rollback.

Shiro Uemura

*Representative Director and Chief Financial Officer*

A

Excuse me, rollbacks in Q1 and Q2, which led to the decrease of MAU of FIFA Online 3 in Korea. So, in terms of the overall decline of MAU year-over-year, we can say that this trend is attributable to titles, one being Counter-Strike Online China and another one, the FIFA Online 3 in Korea.

Regarding the decline quarter-over-quarter, this is mere seasonality as usual.

Brett Moshal  
*Orbis Investment Advisory Ltd.*



Okay. Thank you. That's very helpful.

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**Operator:** [Operator Instructions] This concludes the question-and-answer session. Ms. Ara, at this time, I would like to turn the conference back over to you for any additional or closing remarks.

Maiko Ara  
*Head-Investor Relations, NEXON Co., Ltd.*

Thank you. As there are no further questions, I would like to take this opportunity to thank you for your participation in this call. Please feel free to contact the NEXON IR team at [investors@nexon.co.jp](mailto:investors@nexon.co.jp) should you have any further questions. We appreciate your interest in NEXON and look forward to meeting you whether it is here in Tokyo or in your corner of the world.

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**Operator:** Thank you. That concludes today's conference. Thank you for your participation. You may now disconnect.

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