FY2019 Q1 Earnings Conference Call (May 10, 2019)

Q&A Summary

【Q】 Regarding Q1 China *Dungeon&Fighter*, you mentioned that March sales were stronger than expected and ARPPU increased year-over-year. Can you elaborate more on what happened in March?

【A】 For China *Dungeon&Fighter*, we conducted Lunar New Year update as well as Level Cap Release during Q1. The Lunar New Year update had got off to a good start and we were able to see how the update was performing until mid-February when we gave the Q1 guidance. We had expected the sales momentum to settle down in March, however, the successful Level Cap Release activated in-game activities, especially those of the core users and the momentum continued into March. This also led to the year-over-year increase of ARPPU in Q1.

【Q】 You said that the momentum of Lunar New Year update usually settles down in March. However, in this Q1, the momentum continued up until March. Was this because of the difference in the type of content or the difference in user behavior?

【A】 The type of content was not different from the ones we usually introduce, and so, we might be able to say that it was due to the difference in user behavior. The Level Cap Release enabled users to level up their characters and first mainly activated the core users, which was followed by the increased activities of middle users. Therefore, we were able to enjoy many activities among the player throughout Q1, which led to the revenue outperformance.

【Q】 You mentioned that the launch of mobile version had a positive impact on original the PC version. Can you elaborate more on what you have actually seen in your PC games? Were you able to capture new users who originally started playing the game through the mobile version and then move on to PC or were you able to activate dormant users?

【A】 It is our strategy to fully leverage our own IPs. There are players who love and have good memories playing the games based on these IPs which have been available for years. So, when the game became available on mobile, some of the dormant users were reactivated or some who left the game in the past decided to return and restarted playing the game on PC as well. One of the examples is *MapleStory.* The pattern might be different from one game to another depending on the nature of the game, however, upon launching new mobile games in the future, we are going to leverage this lesson so that both mobile and PC version can grow in tandem.

【Q】 As you extend the thought about how your mobile version stimulates the PC version into *Dungeon&Fighter* in China, it will be more natural to think that there is going to be some level of cannibalization as this is the game where the PC version is quite active. Can you give us an indication of any type of simulation work or any exercise you have done to think about the impact of what *Dungeon&Fighter* 2D mobile will do to the PC version?

【A】 We have to see how things will turn out by launching the mobile version. We expect to see some level of cannibalization, however, we have good examples with cases such as *MapleStory* in Korea. We want to leverage the learnings and minimize any cannibalization with PC users in the case of *Dungeon&Fighter*. It's also worth reiterating that *Dungeon&Fighter* PC version has been in service for 11 years in China and so, is not a title that we can expect a massive growth from here. Therefore, what we want to do is to make sure that PC and mobile combined, we will be able to grow the overall franchise.

【Q】 In separate discussions in the past, we talked about tectonic shifts in technology where it may be prudent for you to spend more in R&D than what you have been today. How should we think about your increase in R&D or headcount and general investments into the coming quarters for 2019?

【A】 In the immediate future, there would not be a major change that should be factored in. We are making our spending as efficient as we possibly can, which is the most important part of what we are doing. At the same time, we are always on the lookout for deploying the capital in a way that will get us the right types of returns. Overall, we think there are major tectonic shifts going on in the video games industry right now that create tons of opportunities we have not seen before. These include convergence of PC and mobile. Also our investments in AI have started to bear fruit. We continue to look for these types of opportunities.

Also, one of the things that makes us unique is that our existing franchises, what we call as "Forever Franchises", are extraordinarily stable. And because we have these franchises, it enables us to invest around the themes we talked about before, including "Core", which is existing types of genres, "Stretch" that stretch the boundaries and genre definitions, and "Frontier Investment" such as AI. We continue to believe that this is the right way to think about our business and the investments that we should make.

【Q】 Could you explain the background on having a second CBT for *Dungeon&Fighter* 2D mobile this year? Is it to improvise on some of the issues you had with the first CBT? And assuming that the second CBT goes well, should we expect the game to be launched relatively easily?

【A】 We conducted a CBT in January and now we are scheduled to conduct the second CBT. However, we have not announced when the second CBT will start. Both Nexon and Tencent have high expectations on *Dungeon&Fighter* 2D mobile and it is a very important title for both of us. It is not a rare case for such a major title to have several CBTs before the official launch. We will officially launch the game once the development is completed and we feel very confident about the game.