

FY2022 Q4 Earnings Conference Call (February 9th, 2023)

Q&A Summary

[Q] Do you believe that you have once again been able to establish a solid revenue base for China *Dungeon&Fighter* as you saw a turnaround in active users, which increased year-on-year in Q4? How should we think about the performance throughout 2023?

[A] **Shiro Uemura (Chief Financial Officer)**

As I have mentioned previously, China *Dungeon&Fighter* bottomed out in Q1 2022. Since then, we have been seeing improvements in the title throughout 2022.

Regarding the specific initiatives we conducted, we promoted communications with our users under the new leadership that came into place in August 2021. We increased the frequency of dialogues with our users, and even had our Korean developers directly reach out to Chinese users through videos. Furthermore, through close communication, we have been able to better understand the needs of our players; we tweaked the farming system so that is less burdensome for users when growing their characters, and made the game more action-oriented, which users have enjoyed in the past.

As a result, we have seen gradual improvements throughout 2022, with the recovery clearly evident in Q4 and the title continuing its strong performance into Q1 2023.

Regarding 2023, our China business grew only 5% year-on-year on a constant currency basis¹ in Q1 2022, which means we are not facing a high hurdle in Q1. However, Q2 and Q4 of 2022 grew 25% and 37% on a constant currency basis, respectively, which are not low comps. Therefore, while we expect roughly 30% growth in Q1 2023, we ask you not to extrapolate the same growth rate for the rest of the quarters in 2023. We place importance on longevity rather than achieving a quick recovery in the short term, so our main focus will continue to be stably operating the game.

¹ Constant currency is a non-GAAP measure used to show performance unaffected by fluctuations in foreign currency exchange rates. Constant-currency basis amounts are calculated using the average foreign currency exchange rates for the comparable period in the prior year and applied to the current period. As an example, we calculate royalty revenues from China *Dungeon&Fighter* by applying the same CNY/USD, USD/KRW and KRW/JPY exchange rates from last year's same fiscal quarter.

[Q] It was announced that the Chinese regulatory authorities granted you approval to launch *MapleStory M* in China. Could you tell us any details about the launch timing, your marketing strategy, and your expectations on the game?

[A] **Shiro Uemura (Chief Financial Officer)**

It is indeed true that we have received approval to launch *MapleStory M* in China. However, we plan to announce the launch timing and our marketing strategy at a later time and would like to refrain from telling you more today. The *MapleStory* franchise is more popular in Korea, but we also have quite a number of fans in China. China is a big market, so we have reasonable expectations for the game. However, we would like to provide more details as soon as we are ready.

[Q] We have been seeing very strong trends in *FIFA ONLINE 4*² since early 2022. In fact, it looks like that strength is still continuing into this year. I understand that the World Cup probably played a factor in this, but it seems that this improvement in revenues could be structural. Why do you think the game has been doing so well recently? Is there a similar trend for this game in other countries, or is it specific to Korea?

[A] **Shiro Uemura (Chief Financial Officer)**

As you have mentioned, *FIFA ONLINE 4* has been performing very well and continued to reach record-high revenue for each of the quarters in 2022. This was partially driven by the World Cup, but also by a combination of various initiatives that we undertook. In addition to the well-executed marketing and sales promotions, we believe that the strong performance was driven by our ability to communicate with our users to build a community, understand their needs, and provide seasonal updates and appropriate daily operations. However, we cannot deny that 2022 was a particular year where we enjoyed the benefits from the World Cup, so we do not necessarily have a bullish view, and would not be surprised if we have year-on-year decline in revenue in 2023.

Also, we are not involved in the operations of the game in other countries so we would like to refrain from commenting on services outside of Korea.

² Official titles are EA SPORTS™ FIFA ONLINE 4 (PC) and EA SPORTS™ FIFA ONLINE 4 M (mobile).

[Q] Regarding *KartRider: Drift*, my understanding is that it is a low-monetizing game, which may make it easier to cater towards western gamers. The game will be fully cross-play and will be launched globally. Could you give more color on where you are trying to take the game over the long-term?

[A] Owen Mahoney (Chief Executive Officer)

I would like to remind you of the key pillars of *KartRider: Drift*.

Number one, it's free. Number two, it's cross-platform, which means it can be played on PC, mobile, meaning iOS and Android, and console, meaning PlayStation and Xbox³. Number three, it's online and has sophisticated things like matchmaking and community building. Number four, it has customization. Customization doesn't matter so much in an offline game, in which you would play by yourself or with one or two other players, but it matters immensely in a Virtual World. If you think about a Virtual World, it's like a virtual city. If you never go out of your house, it doesn't really matter what you wear every day, but if you go into a city and you're surrounded by other people, what you wear matters. People self-express through what they wear. Well, the same thing happens in the Virtual World.

During the Preseason period, I've been playing the game a lot and talking to many players through Twitch and other forums, and the reasons they enjoy the game has to do with at least one of these aspects that I just mentioned. Fundamentally, what they're saying is that it's a really great game and that they enjoy participating and playing in this Virtual World. So at this point, our most important job is to build a community over time, which starts out with providing a fun experience to players.

But what *KartRider: Drift* is doing is it's redefining the whole category of kart racing games. It takes the concept of a kart racing game and brings it into the world of Virtual Worlds with the key features I highlighted. This would become the basis to build a large Virtual World over time, very much along the lines of what we did with *FIFA*⁴, the first generation of *KartRider* and many others. So, we think we have the core ingredients to build a strong, robust Virtual World over time.

³ All other product names mentioned here are trademarks or registered trademarks of their respective companies.

⁴ Official titles are EA SPORTS™ FIFA ONLINE 4 (PC) and EA SPORTS™ FIFA ONLINE 4 M (mobile).

【Q】 In the past, we heard that Virtual Worlds are similar to the operation of theme parks, which are subject to continuous improvement and growth over a long period of time. On the other hand, we have seen situations where the recovery in demand for real-world, physical forms of entertainment has affected the demand for digital entertainment. After all, we only have limited time in a day, and the number of communities and Virtual Worlds that we can belong to are limited; the more we try to grow multiple large-scale Virtual Worlds going forward, the more challenging it will be. With that in mind, could you share your thoughts and strategies regarding Virtual Worlds?

【A】 Owen Mahoney (Chief Executive Officer)

If I understand the core of your question, I think what you're saying is we only have limited time in a day, and people tend to revert to their physical life to enjoy physical forms of entertainment. However, I don't think that this has posed a challenge for the industry.

I say this as a game consumer, but if a Virtual World is really entertaining and I have lots of interesting things to do in that Virtual World, I will definitely play that game. On the other hand, if the Virtual World is undifferentiated, it becomes uninteresting, and I won't be spending time in that Virtual World. The industry creates things that are very similar; however, when there's innovation, when we provide new types of experiences by bringing a high-quality product to the market, people immediately start gravitating towards it in very large numbers. We have seen this over and over again in history, and people are surprised by the number of players who end up playing the game and the hours they end up playing. For us, this ultimately comes down to providing meaningful differentiation and high-quality Virtual Worlds. If we deliver a great online experience to customers, they will definitely play, and we will find that online games, especially Virtual Worlds, are incredibly compelling forms of entertainment.

【Q】 For HR costs⁵ in Q1 2023, you are guiding for an increase of 6.3 billion yen year-on-year. Can you give more color on how you are thinking about the rest of the year? Will it be a more moderate increase versus last year?

【A】 Shiro Uemura (Chief Financial Officer)

Regarding HR costs, we increased our headcount significantly as we saw this as investment in developing and operating the multiple titles we have in our pipeline. This year, as we are nearing the launch of some titles, we do not expect its increase rate to be as high as last year, but we plan to increase the number of employees as needed.

On the other hand, we expect that the increase rate in marketing expenses will be greater than last year. We especially intend to market our larger titles with high expectations in order to secure their future revenues and growth.

For full-year 2023, we believe that we can secure a similar level of operating profit margin as we did for full-year 2022, which was 29%. That being said, we expect to spend on costs accordingly.

⁵ HR costs include HR cost (COGS), HR cost (SG&A) and R&D (SG&A).