

FY2023 Q3 Earnings Conference Call (November 9th, 2023)

Q&A Summary

[Q] Please give us an update on the most recent beta test of *THE FINALS*. Also, can you share anything on the monetization scheme, and how much of its revenue contribution is baked into the Q4 outlook?

[A] **Owen Mahoney (Chief Executive Officer)**

We have announced that the game will come out by the end of the year.

The results from the most recent beta test have been outstanding across the board. As we have said about our other titles, we are in it for the long term, and that is the smart way to launch Virtual Worlds. After seeing the beta results, our confidence in the long-term performance of the game has gone way up, and we think that our thesis of step-function growth is firmly in place.

Regarding the monetization strategy, we have not released much detail on it, but we're probably not going to stray too far away from games of similar genres that have launched from other Western studios.

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

Although we do not provide specific revenue forecasts for individual titles, we are saying that approximately half of the year-on-year growth in North America and Europe in the Q4 outlook comes from *THE FINALS*.

【Q】 I am extremely surprised to hear the news about the CEO succession, considering games from Embark Studios will be coming out soon. Why did you decide to hand over the CEO position at this time? What was the background behind your decision to pass the torch to Mr. Junghun Lee?

【A】 Owen Mahoney (Chief Executive Officer)

We think succession planning is strongly tied to corporate governance. We believe this is a crucial topic for the executive team to address head-on and proactively.

The long-term health of the company starts with a great bench of executives around the company. As mentioned in the Prepared Remarks, our succession plan has been in the works for some time. Junghun joined our Board of Directors in March 2023, which fit in nicely with the whole plan.

Although our industry is often focused on new catalysts, I'd like to remind you that under Junghun and the management team, *MapleStory* has continued to exist as a Virtual World for 20 years and grew 59% year-on-year in Q3 in Korea. That's an astounding number and is quite rare in the global video games business.

I am very blessed by the privilege of working with an executive team that I consider to be the best in the industry around the world. I've met a lot of game company executives in many different countries around the world, and I would stack our team up against any other team out there—you can see that reflected in our results. I'm very excited about the future of Nexon and the next generation that will continue to build the business in the years ahead.

【Q】 I thought that *THE FINALS* was going to start up slowly, but considering the revenue scale factored into the Q4 outlook, it seems a certain amount of contribution is factored in. Would it be fair to expect the revenue scale to grow over the next fiscal year?

【A】 Shiro Uemura (Chief Financial Officer)

We would like to grow this title over a long period, and we believe it is possible to develop *THE FINALS* into a fourth pillar, following our major titles *MapleStory*, *Dungeon&Fighter*, and *FC ONLINE*¹. Rather than trying to generate large revenue from the start, we would like to grow the game over time and make it a game that everyone can enjoy by closely monitoring the in-game situation and conducting appropriate daily operations.

¹ Official title is *EA SPORTS FC™ ONLINE*.

【Q】 Marketing expenses are expected to increase considerably in Q4, but is this increase due to the launch of *THE FINALS*? Will this trend continue for a while into next year as the user acquisition phase continues?

【A】 Shiro Uemura (Chief Financial Officer)

In the case of a large-scale launch, we use a certain amount of marketing expenses as an upfront investment. Thus, we expect marketing expenses to increase year on year in Q4.

The use of marketing expenses fluctuates depending on the game's launch and its performance, so there are fluctuations from quarter to quarter. Therefore, we explain our approach to marketing expenses on a full-year basis. Looking at past trends, it has been at about 7-10% of yearly revenue, and for this year, we think it will be around 8% of annual revenue, including the Q4 forecast.

Regarding the use of marketing costs going forward, we will consider how to spend it depending on the situation of the game and whether we can expect to gain a certain amount of revenue in the future.

【Q】 Could you please provide insights on the challenging spirit and management approach of the new CEO, Mr. Junghun Lee, and what expectations investors should have in terms of his leadership?

【A】 Owen Mahoney (Chief Executive Officer)

I am planning to discuss this topic more thoroughly in the upcoming quarter, but along with the executive team, Junghun and I spent considerable time architecting the strategy we've shared with employees and customers, and we are aligned on these topics. Leading a large creative organization involves the challenge of balancing current success and building for the future. We've adopted a barbell approach, focusing on our live Virtual World franchises to ensure business stability, and making calculated bets on future innovation. Balancing these aspects is tricky but crucial for a company serious about innovation. Our dedication to both current and future business is evident in this quarter's results, validating the wisdom of our strategy and the team's execution.

【Q】 Please tell me why you were able to get good results with *MapleStory M*¹ in China.

【A】 Shiro Uemura (Chief Financial Officer)

*MapleStory M*¹ in China exceeded expectations, leveraging the existing fan base of the PC version and attracting players familiar with the *MapleStory* IP. It is similar to our experience with *The Kingdom of Winds: Yeon* in Korea, in that the popularity of the PC version and the recognition of the IP led to the success of the mobile version.

【Q】 Is there a possibility of further improvement in operating margin in 2024, as you achieved in 2023?

【A】 Shiro Uemura (Chief Financial Officer)

Our key performance indicators are topline revenues and operating income because the margin rate fluctuates depending on various factors such as the competitive environment and investments in talent. Additionally, whether the performance is due to our in-house titles or publishing titles is another factor impacting our margin rate. Therefore, our primary focus is on the absolute amounts of revenues and operating income rather than the operating margin. We anticipate an improvement in the margin in 2023 but refrain from commenting on it for 2024.

【Q】 Could you provide an overview of the player distribution across platforms for *THE FINALS*?

【A】 Shiro Uemura (Chief Financial Officer)

We have not disclosed the information.

【Q】 Can you tell us more about why you decided to step down from your position?

【A】 Owen Mahoney (Chief Executive Officer)

It's no more complex than what we've said in our Prepared Remarks and what I've been saying during the Q&A. The decision is tied to a commitment to long-term growth and responsible succession planning. I've been the CEO for 10 years now, and that's way beyond what I understand the average to be for a public company CEO. It's appropriate for a company serious about long-term growth to be very serious about succession planning. The right time to hand over is when the company is in great shape and has set up for even more success in the future. Our thoughtful and premeditated approach to succession planning aligns with the company's current strong performance. We think now is a great time to execute the succession plan.

¹ Official title is *MapleStory: The Legends of Maple*