

FY2017 Q3 Earnings Conference Call (Held on November 10, 2017)

Q&A Summary

【Q】 Please let us know the contribution to your P&L from Pixelberry Studios acquisition.

【A】 Regarding Pixelberry Studios' revenue and profit, we are not disclosing the details. On stand-alone basis, the company has sufficient revenues and profits. We still have to go through M&A accounting processes and we have not finalized the details yet. Therefore, in terms of our consolidated P&L impact, we would like to refrain from giving you specific numbers. Needless to say, the consolidation will have a positive impact on our revenues as well as profits.

【Q】 Do you have impairment loss or any other extraordinary expenses recorded as other expense in Q3?

【A】 Impairment loss is included in other expense. In Q3, impairment loss related to *LawBreakers* accounts for the majority of the total other expense. We will not accrue any more impairment loss pertaining to *LawBreakers*.

【Q】 Since the beginning of 2016, China *Dungeon&Fighter* is contributing to the positive growth of China revenues. You believe that live game is volatile, but it will be flat overall. Given the current situation of strong growth, do you think your long-term growth vision will change?

【A】 In terms of our growth vision, existing live games are stable and they fluctuate depending on situation, but our image is to gradually grow that base. Regarding China *Dungeon&Fighter*, we are conducting stable and cautious daily operation, and we believe that is reflected in the growth of China *Dungeon&Fighter*. We would like to further grow not only *Dungeon&Fighter* but also other exiting titles.

【Q】 In terms of the paying user increase for *Dungeon&Fighter*, are there more users joining from the rural areas in China or do you see more sleeping users who left the game in the past coming back?

【A】 In Q4 2015, we provided low-price avatars for users, and it triggered the increase of paying users. We can say the number of paying users among existing users grew.

【Q】 My impression has always been that *Dungeon&Fighter* accounts for over 90% of Nexon's China revenues. Do you think China *MapleStory2* has the potential to be a significant contributor?

【A】 It is too early to tell. We are happy with how it has started, but it is only a hit in our view if it grows for several years.

【Q】 I think Korea *MapleStory2* had a really strong start and then it faded after several months. How is that addressed for China *MapleStory2*?

【A】 We spent an enormous amount of time between the launch of Korea *MapleStory2* and now going back to the core of the game. What the team has worked really hard on over the last couple of years since Korean *MapleStory2* launch was to tie various ideas into the core of the game play. We have worked very hard and it is very reflective in China *MapleStory2*.

【Q】 *MapleStory2* is targeting younger audience in China. Do you see user demographic expansion in China especially young audience?

【A】 There are a lot of different styles of game within China market. A lot of games look like they are targeting one style of game or one demographic on the surface, but they are, in fact, widely liked by different demographics. On the surface, *MapleStory* looks like a 2D pixelated side-scrolling game, but it is a deep rich MMORPG experience. So there is a wide variety of players playing *MapleStory* around the world. It looks like *MapleStory2* is targeting young demographic on the surface, but then you find people of all ages and backgrounds playing the game. I think in China market, it is hard to draw hard lines.

【Q】 As we have *OVERHIT*, will there be cannibalization with *AxE*?

【A】 *OVERHIT*, *AxE*, and *HIT* are different in terms of genres; *OVERHIT* is multi-hero RPG, *HIT* is action RPG, *AxE* is MMORPG. Therefore we are not worried about cannibalization within in our mobile titles in Korea. However, the market is very competitive and there will be a competition. *AxE* is up to our expectation so far. We want to place good quality content update and daily operation and maintain our retention to make the game last long.

【Q】 According to the guidance, there will be an increase of 30% to 60% in North America revenues in Q4. Is it correct to understand that mostly the contribution will be from Pixelberry? And what is the acquisition price for Pixelberry?

【A】 The majority of that increase will come from Pixelberry. Pixelberry will be consolidated in the middle of the quarter. Therefore, only a portion of Pixelberry's revenue will contribute to our Q4 revenues. Regarding the acquisition price, we just agreed on the acquisition and there are still items that we have not finalized. We will reflect the numbers once all accounting terms are finalized. At this point in time, I cannot give you any figures.

【Q】 Nexon has signed a publishing agreement with EA for *EA SPORTS™ FIFA ONLINE 4*. Do you think there will be some impact on *EA SPORTS™ FIFA Online 3*, as well as *EA SPORTS™ FIFA Online 3 M*? Are you going to keep the games in parallel or are you going to replace?

【A】 *EA SPORTS™ FIFA Online 3* and *EA SPORTS™ FIFA Online 3 M* are performing well and users are really enjoying the games. Based on that current situation, we do not think the momentum will suddenly change. Regarding their positioning with *EA SPORTS™ FIFA ONLINE 4*, the details have not been announced yet. *EA SPORTS™ FIFA Online 2* was transferred to *EA SPORTS™ FIFA Online 3* and similar scenario will most probably be followed.

【Q】 I have a question about China *Dungeon&Fighter* update schedule on page 16 of the investor presentation. You had a winter update in last Q4, while Q4 this year says it's not applicable. I want to know why you decided not to have a winter update.

【A】 We generally do not expect dramatic impact on our financials in Q4. The winter update in last Q4 was not major compared to the Lunar New Year or National Day Update. Although we do not have any update that should be specially mentioned in this Q4, we will have small events and content updates. There will not be much of a difference between this Q4 and last Q4.

【Q】 Could you share globalization schedule of *Dark Avenger 3* and *AxE*?

【A】 We have not yet announced the global launches for *AxE* and *Dark Avenger 3*.

【Q】 How much do you think the incentive bonus would impact on 2018 P&L?

【A】 We have a certain target internally, and incentive bonus will be accrued when the target is achieved. When we have good results like this year, incentive bonus is expected to be paid. Therefore it is not the cost that only increases.

【Q】 Could you tell me about young user acquisition for China *Dungeon&Fighter*?

【A】 Some young users are joining the game but we are not seeing dramatic numbers of new young users. There has not been a major change in the user demographic.

【Q】 *HIT* faced competition with *Lineage 2: Revolution* among MMORPG genre. Based on the experience from *HIT*, I want to know what kind of changes you made in your strategy in launching *OVERHIT*.

【A】 *OVERHIT* is a multi-hero RPG and *HIT* is Action RPG. We are using the name *HIT*, but the genre is different. *HIT* is a very well-known title as it was ranked number one in Korea after the release. We use the IP, so we have high expectations for *OVERHIT*.

【Q】 I was thinking that you could launch *Durango: Wild Lands* this year. Do you have certain parts that you need to work more on the development or are you having difficulty deciding monetization scheme in the game? Could you give more details on the current situation?

【A】 We will launch *Durango: Wild Lands* in 2018 instead of 2017. We have very high expectations for *Durango: Wild Lands* and there are development challenges for this game. Monetization can be one of those challenges. To make *Durango: Wild Lands* successful, we decided to delay the launch. We believe whatever happens in the near term is going to be dwarfed by what could happen in a long term.

【Q】 *AxE* seems to be performing well. Given that, I thought Q4 guidance for Korea mobile business can be higher quarter-over-quarter. Are there other titles offsetting the increase from *AxE*?

【A】 We have *EA SPORTS™ FIFA Online 3 M* in mobile titles and Q4 has weaker seasonality compared to Q3. Also, *Dark Avenger 3* is slowing down. Seasonality in *EA SPORTS™ FIFA Online 3 M* is the major reason for the decrease quarter-over-quarter, however it will be more than offset by increase of *AxE* and our new title *OVERHIT*.

【Q】 Could you give us the hint as to the size of Pixelberry acquisition based on your past acquisitions?

【A】 What we can say is it is smaller than Gloops acquisition that we made several years ago, which was our last large acquisition, but bigger than those small ones we did in the past few years.

【Q】 At the time of the transition from *EA SPORTS™ FIFA Online 3* to *EA SPORTS™ FIFA ONLINE 4*, will there be temporary costs or expenses incurred from the remaining assets related to the license fee?

【A】 Because we have an agreement with EA and we have more to discuss about *EA SPORTS™ FIFA ONLINE 4*, I cannot give answer to that question at this moment.

【Q】 You announced a share buyback policy on 10th February. It has been some time to execute the policy since then. Also the share price has gone up since the announcement and the number of shares that you can buy back with 10 billion yen has got decreased. In terms of efficiency and timing, can you tell me Nexon's policy around share buyback?

【A】 On 10th February, we announced a share buyback policy at a maximum amount of 10 billion yen in one-year period. The number of shares that we can buyback would change depending on the share price. But in terms of improving our corporate value, we believe higher share price is favorable. In terms of the timing for share buyback, there are several requirements that need to be met. For example, we cannot execute when we have insider information. Given that, we now became able to execute share buyback.
