



Program: First Up

Bloomberg TV

Guest: NEXON CEO, Owen Mahoney

Interviewer: John Dawson

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John Dawson: Well, let's get more with Nexon's CEO Owen Mahoney, who joins us now first on Bloomberg, live from Tokyo. Many thanks indeed for joining us today. Just going with your earnings first, if I can. You do say that operating profits are down year over year by 26%. Is this just down to royalties or other pressures at play?

Owen Mahoney: Well, it's not so much a matter of pressures; it's a matter of our decision about how we want to build our business. In the most recent quarter, China, which has very high margins for us, and Korea, which has lower margins for us, they were about even compared to previously when China was much higher percentage of our overall business. So we think that it's healthy to have a broad base of different revenues regionally, and what you're seeing is a reflection of that broader base of revenues. In other words, not so much of a concentration just on China. We are also fortunate that we were able to partner with some companies like Electronic Arts, and we've got a bigger business on mobile than we used to have. So that puts pressure on our margins as well. It's not a matter of costs rising so much, but it's a matter of revenue mix, both geographically and platform-wise.

John Dawson: Is it a short-term pressure on margins or a longer term trend?

Owen Mahoney: What I'd say is, overall, we're going to have a business, or our intention is to have a business, that is more geographically diverse than it has been in the past. Again, China shows very very high margins because essentially we are required to work through partners, and all that revenue that we get from China goes directly to our bottom line because we receive those royalties from China. So if we are able to move our revenue base more broadly around different regions, then that margin picture will change. Also, when you're putting more games out on mobile, you have to pay platform tax to companies like Google and Apple. So that puts pressure on the percentage but the idea is that because we have a larger revenue base because we are expanding our revenue base around the world, the aggregate amount of operating income increases



and we think that is a very good thing.

John Dawson: Revenues in the States were down 22% YoY, but again, that is clearly an enormous market potential. How are you going to address that?

Owen Mahoney: We are very aggressively addressing the North American market as well as the European market, and we think the key to that is to get our operations in gear for operational excellence perspective. We have a couple hundred people on the ground in those markets and we have been working harder since the new management team has taken over to improve our operational excellence in those areas. But then, what we want to do towards the end of this year and well through 2015 is incorporate and to bring in the new games we're launching. We've announced about a deal a month with external developers who are the cream of the crop in terms of Western game development talent. And those games in conjunction with our knowledge of free-to-play online games- those games will start to hit in to the market at the end of this year and throughout next year. We think that our future is bright in those markets.

John Dawson: I must ask, you are a pioneer in free-to-play games. What are the trends you are seeing? PCs, tablets, smart phones- where does the future lie as the pioneer of this area, if you like, this niche?

Owen Mahoney: I'd say there are two big things we are seeing and we want to be a pioneer in both of them. The two key ones to keep in mind are, we don't see so much of a transition to mobile, but we see a convergence between what is PC and what is mobile. If you go back to two to six years, the difference between a game playable PC and a game playable mobile device was vast. Today, they're becoming more and more indistinguishable. If you have an iPad and a MacBook Air, they're very similar devices under the hood in terms of networking capability and graphics capability. Two or three years from now, we think that they're essentially the same device. That is - your mobile device is your PC. We think that that expands our market potential significantly because we can deliver a much better game as a result of that. The second trend we are seeing is a better understanding in the West of what is free-to-play. What we hope and what we plan to pioneer in the West is a better understanding of what is free-to-play. Free-to-play, previously in the West, was looked at as a way to monetize the user base more effectively, but that's not what our experience has been. It's a much better value proposition and what you need to do is design games that are going to retain people for a



very long time. That's the pattern that you see at Nexon and why our business has grown more consistently over almost a decade and a half and more.

John Dawson: That's the hard part isn't it, trying to retain your customer base, because clearly, people play games like Candy Crush, or one of these games, grow tired of it, and go on to the next game. You have so many titles coming out- Legion of Heroes, the World Cup obviously helped FIFA, you've got new launches for the second half of this year. Tell us about those new launches like Dirty Bomb, Legion of Heroes. I believe you have 150 games in 100 countries you're really covering everyone's interests, aren't you?

Owen Mahoney: We have worked very hard since the transition to the new management team to pare down what we are doing to only things that we really, really believe in. Having said that, we still have a very full pipeline as you mentioned. There are a couple that we are really excited about. For example, you mentioned Legion of Heroes. Legion of Heroes is what we call a graphic MMORPG – a massively multi-player role-playing game that you play with thousands of other players online. It looks very much like a PC game. It's very rich and immersive. Yet we delivered it on a mobile device. Meaning that you can play it on a small format mobile device, and it's really good. So when you deliver a game that is that immersive, it keeps players coming back for months and hopefully years on end. And that's been our experience with our PC games, and Legion of Heroes is a game that's been designed to do exactly that. That's been our experience so far since we've launched it about six months ago in Korea. Now we're going to be launching that in China, North America and other regions, so that's a great example.

John Dawson: Time is against me, seconds to go. I must ask you, you mentioned Korea- Neptune, a big investment there. What can they produce for you?

Owen Mahoney: We think around Korea, our focus on game developers is to find teams and Intellectual Properties that we think that we can grow over time- over a period of years. So that's what our idea is relative to equity investments and M&A.

John Dawson: Many thanks to Owen Mahoney joining us there. You've got many games, 150 games in 100 countries. Joining us is CEO of Nexon with their plan, free-to-play.