

Program: First Up
Bloomberg TV
Guest: Nexon President and CEO Owen Mahoney
Interviewer: Ms. Angie Lau
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Ms. Lau:

We're going to be watching Nexon shares at the Tokyo open after the game maker reported an 88% rise in full-year net income. Nexon maintained top spot amongst Asia's tech stock last year, shares almost rising 80%. But you know what, they're down more than 17% this year. So what's the outlook for the gaming market? Joining us now from Tokyo is Nexon's president & CEO Owen Mahoney.

It is a bright spot but I guess this tide that is falling is also dropping the boats that are floating on the ocean here, and that is certainly the case for Nexon. How are you trying to buffer yourself from these market headwinds?

Mr. Mahoney:

Well, we really focus on controlling what we can control, and the games business is really the art business. We work on creating games that are fun and differentiated, and we bring those to players around the world using our live game operations teams in places like Japan, Korea, China and North America and Europe. If we do that well, then our business does well. That's because our user base is substantial and it's stable. Then we are able to build games that people like and they like to play, so they keep with us. That's how we build our business over time. It's worked well for us in 2015 and we think it's going to continue to work well for us.

Ms. Lau:

What about yen's strength against currency volatility in the region?

Mr. Mahoney:

We generate revenues the most in China and Korea, Japan is our third and North America and Europe follow after that. We really focus on what our local currency performance is. The Japanese yen-US dollar or the Japanese yen-Korean won exchange rate is going to do what it does and we don't really have control over that. But what we have control over is our operations in those regions. So we focus on what the constant currency number is, meaning what the local currency number is. So we're happy with our performance in each of our regions.

Ms. Lau:

All right, you reported yesterday that you're going to reduce capital and capital reserve. The capital to be reduced by 55 billion yen to 1 billion yen. You're going to reduce capital reserve to 250 million yen. Also, you're cutting your retained earnings reserve to zero. What are you doing with all of that?

Mr. Mahoney:

That's simply a reclassification of our capital base so that we will have maximum flexibility to leverage what we see is probably more volatility in both the private markets and public markets for video game companies.

What's going on in the worldwide situation affects the video games business of course and we want maximum flexibility for the benefit of our shareholders over the long term, and that could be anything from investing in marketing or new game development or M&A or returns to shareholders through our capital, through our policy of shareholder returns. So we want to have the maximum flexibility.

Fortunately, we have over two and a half billion dollars US in cash and that gives us quite a bit of flexibility to operate in a way that benefits our long-term business.

Ms. Lau:

Why would you want to buy a weaker gaming rival in the M&A space if the opportunity arises?

Mr. Mahoney:

Well, we don't want to buy a weaker M&A, a weaker company. What we want to buy is game companies that view the games business the way that we do, that are capable and interested in making really great game art and that can do that over time. However, in times of market volatility, those game companies might be available at prices that are better than they were more recently. So, if we were able to do that effectively, you know, lower prices is a good thing for us. We are value investors, so if you're value investors you like low prices.

Ms. Lau:

All right, which companies are you eyeing up, and is virtual reality a part of that strategy?

Mr. Mahoney:

Without talking specifically about any particular things that we have, companies that we have our eyes on, we look at companies that are able to make great games and that are interested in building them over time. That could be on any different platform. Our biggest business has been PC, but our mobile business is growing very very quickly. In the most recent quarter it grew almost 50% compared to the previous fourth quarter. So we're obviously very interested in mobile.

Virtual reality is currently a nascent market. It's very very small, but a lot of people are interested in where it develops from here. We'll see how it goes.

Ms. Lau:

All right, it's always interesting space to watch. Owen Mahoney, always good to talk to you. Thank you so much for that. Nexon CEO and president joining us from Tokyo.

Mr. Mahoney:

Thank you very much.