

## FY2018 Q4 Earnings Presentation (Feb 12, 2019)

### Q&A Summary

**【Q】** Can you share any achievement or challenges you found during the closed beta test for *Dungeon&Fighter* 2D mobile? Also, please provide the rough timing of launch.

**【A】** We conducted the closed beta test for about a month in January. We can't share the details of the test results. We plan to fine-tune the game based on what we gained from the test results. We have not announced the launch date yet.

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**【Q】** Increase in costs including R&D and HR costs are bigger relative to growth in revenues. How should we think about the cost going forward? Should we be concerned about the decline in profitability due to increase in fix costs?

**【A】** Our costs such as HR costs have increased primarily due to the headcount increase. We are hiring talents as necessary along with the expansion of mobile business and title increase, however, about half of the increase was related to acquisition. We are not expecting headcount to continue to increase at the same pace.

Talents are assets for game companies. We retain great talents to build future growth, therefore, consider this as up-front investment. Of course, we will properly manage costs, however, revenue growth and cost increase can be seen at a different pace.

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**【Q】** Will there be any actions Nexon can take in case NXC decides to sell their shares to a party unfavorable to Nexon?

**【A】** It would be inappropriate for us to comment on any actions that NXC might or might not take, or any impact as a result of those actions.

Nexon's management team and the employees have a very clear view of the future of our company, what our strengths are and what we want to build. And we are in an extraordinary position as a game company at this time of great change in the industry. So, we are excited about our future.

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**【Q】** Your Q4 China revenue declined year-over-year and you also guided Q1 to be down year-over-year. This makes it two consecutive quarters of your China business recording negative year-over-year growth. Please explain the background of this.

**【A】** Year-over-year decline in Q4 China was due to *MapleStory 2* as well as *Dungeon&Fighter*. *MapleStory 2* started the open beta pre-test in Q3 2017 and did very well in Q4 2017. *Dungeon&Fighter* also declined due to the decrease in ARPPU, however, there is no particular concern and we delivered results as we had expected.

As you recall, the comps were very good for *Dungeon&Fighter* in Q1 2018. Based on its performance to date, we expect the number of paying users will not reach the high base in Q1 2018. Accordingly, we expect its Q1 2019 sales to decrease year-over-year. However, we expect Q1 2019 sales to be higher if compared with Q1 2017.

*Dungeon&Fighter* recorded double-digit year-over-year growth for three consecutive years from 2016 to 2018. It is not realistic to expect its revenue to continue to grow at the same pace. Both the Level Cap release and the Lunar New Year update in Q1 2019 are going very well. We will focus on operating the game stably and aim for modest growth in the future.

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【Q】 Q4 Korea resulted at the low-end of the guidance, which looked relatively weak. The retention of your new titles has not been so great in the past 1-2 years. I personally think it would be a better strategy to maximize the value of your existing wholly-owned IP rather than investing in marketing to promote new games. What is company's view on this? Are you considering to change your strategy?

【A】 We have started to focus more on our existing wholly-owned IP than we had in the past. You will see more games in 2019 and beyond that are based on our existing wholly-owned IP. We see great opportunities in extending these through updates or expanding service to other platforms.

Also, iPhone X and Android devices are just fantastically powerful machines that can render a much deeper, richer experience. And that kind of deeper, richer experience in an online game world with tens of thousands of players in the same game world at the same time lends itself to the kind of retention that we built in PC business. Focus on existing wholly-owned IP is certainly something that is clearly on our mind and that is one of the reasons why we wanted to show you *Mabinogi Mobile*. We think technology is moving the industry to our direction enabling to deliver the types of games that we like to make.

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【Q】 Personally I think you might launch the mobile version first and then concentrate on the new PC 3D action *Dungeon&Fighter*. Please share us your IP strategy for *Dungeon&Fighter*?

【A】 *Dungeon&Fighter* is not just a game, it is also a very popular IP. There's a whole lot of players who have been playing it for a very long time and we think that there are different ways to bring a great game experience. Therefore we are trying to prepare the game in different types of play styles. We will chose platforms case-by-case, but ultimately we think PC, mobile and console are converging into the same thing.

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**【Q】** You mentioned before that you are not concerned about the cannibalization between the PC and mobile version of *Dungeon&Fighter*. After conducting the closed beta test for *Dungeon&Fighter 2D* mobile, was there any change in your view? Also, can you tell us what are the differences between PC and mobile version?

**【A】** We are developing *Dungeon&Fighter 2D* mobile to provide similar game experience to the PC version. Having said that, we think the game experience of PC and mobile will not be exactly the same. *Dungeon&Fighter* has been in service for more than 10 years in China, and we think chances are low that PC users will move to mobile version, leaving their in-game assets they accumulated over years. We are targeting to acquire new audiences by launching mobile version, while of course there may be some users who will play both PC and mobile. Given how popular *Dungeon&Fighter* is, we think we can attract relatively casual users who have not played PC version before and can generate synergies rather than cannibalization.

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**【Q】** You have conducted M&As in the past, but the size of each M&A was not that large compared to your cash position. I know you'd like to focus more on M&A rather than shareholders return for the time being, but M&A opportunities are in our view quite limited. Can you share us what kind of M&A opportunities you are looking for?

**【A】** In the game industry, M&A tends to come up very quickly and needs to be acted on very quickly. We've been faced with M&A opportunities in the past and we've seen companies became available which were just a little bit out of our price range, but they would have been terrific acquisitions for us. We would like to look at the companies that have fantastic game experiences, teams that we think that can really grow in scale and have a vision for the future. Sometimes that comes in small packages and sometimes it comes in very large packages. So, we like having flexibility and we think it is very important.

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**【Q】** I have expected that Q1 China *Dungeon&Fighter* will continue to see expansion of paying users followed by progressive improvement in ARPPU. Can you elaborate more on the current user behavior?

**【A】** Lunar New Year update, which is the most important update, started on January 21<sup>st</sup> this year, while it started on 1<sup>st</sup> February in the previous year. Because of the timing difference, we cannot just simply compare the KPIs of the two years to date. When we look at the early performance of this year's Lunar New Year update, while MAUs and ARPPU are stable, paying users are lower compared to last year's high base. Therefore, we expect revenue to decrease year-over-year. Having said that, this is year-over-year decrease compared to the high comps of last year's Q1, and we think China *Dungeon&Fighter* is continuing to do very well.

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