

FY2019 Q2 Earnings Conference Call (Aug 8, 2019)

Q&A Summary

【Q】 In regards to Embark Studios acquisition, why did you choose to acquire the remaining stake of Embark through Nexon stock in steps over a five-year period rather than acquiring them all at once?

【A】 First, this enables us to decide whether to increase our stake or not based on their progress on game development and milestones. Second, we can incentivize the founders and the employees at Embark. And the back end is about pay for performance. We wanted to make sure to align our interests by setting a scheme which they get paid more if they deliver more profits to Nexon's business.

【Q】 Q3 China guidance looks weak even though the contribution from *KartRider Rush Plus* to the financials is limited. Could you explain the context of why you expect Q3 China to be weak?

【A】 *KartRider Rush Plus* has been doing very well in China, but our take ratio for this game is limited. It is a mobile game which requires platform fee as well as is jointly operated by TianCity and Tencent. Some of you may think that the contribution from *KartRider Rush Plus* is quite large, and that there's a large decline in *Dungeon&Fighter*, however, this is incorrect. As for China *Dungeon&Fighter*, we are expecting a year-over-year decrease in Q3 due to the high comps of last year. As you can see from the historical China revenues on page 16 of our Q2 investor presentation, *Dungeon&Fighter* grew significantly in FY17 and FY18, and so, first of all, the decrease is due to the high comps of last year.

In terms of the current KPIs, we are seeing year-over-year decreases in paying users and ARPPU. We were not able to deliver the results we had hoped for from the 11th Anniversary update in June, which is important in activating user traffic. In addition, the avatar package sales in time for the Summer update did not resonate well with the users. As a result of these, KPIs are currently soft.

In order to improve KPIs, we have planned a multi-quarter content update strategy and have started to execute a part of this plan. We think we will be able to improve the KPIs through these content updates.

KPIs including the revenue of an online game fluctuate depending on how well content updates are received. We have experienced these fluctuations a number of times in the past and we think this is not what makes us overly concerned. We will leverage our online game operations know-how and put *Dungeon&Fighter* back into good shape again so that we will continue to be able to operate it for years on end.

【Q】 Korea Q3 guidance also looks weak despite the seasonality. Could you explain the context of your Q3 Korea guidance?

【A】 For Korea PC, we expect revenue from *MapleStory* to decrease due to the extraordinary high comps in last Q3 when it marked the record-high quarterly revenue driven by the largest content update. Meanwhile, we expect a year-over-year increase in *FIFA ONLINE 4*'s revenue, but the increase in *FIFA ONLINE 4* is not expected to be as large as the decrease of *MapleStory*.

For mobile business, we do not have a plan to launch a new mobile game in Q3, therefore, we do not expect significant growth in our Korea mobile business.

【Q】 You announced the policy to conduct up to 30 billion yen share repurchase, but it says "Specific share repurchase is subject to variation" in the investor presentation. Can we think that you basically are going to conduct 30 billion yen share repurchase? Or do you already expect some sort of event that could change this policy?

【A】 Yes, we plan to conduct up to 30 billion yen share repurchase. We placed disclaimer because in certain cases, we may not be able to conduct share repurchase due to legal/regulatory constraints.

【Q】 You mentioned that the royalty rate of *KartRider Rush Plus* in China is low. Would this also be the case for *Dungeon&Fighter 2D* mobile?

【A】 The royalty rate for *KartRider Rush Plus* is low as it is a jointly operated game and we receive localization support from TianCity. Therefore, this will not be the same for *Dungeon&Fighter 2D* mobile.

【Q】 Any update on *Dungeon&Fighter 2D* mobile?

【A】 We are preparing for the second CBT, but we have not announced its date. We will decide the launch schedule based on the results of the second CBT.

【Q】 Is there a timeline for board's approval on the execution of share repurchase and for execution of share repurchase?

【A】 We plan to conduct up to 30 billion yen share repurchase within 6 months considering various situations. We will announce the details of specific share repurchase when it is resolved by the board.

【Q】 Could you explain why you decided to jointly operate *KartRider Rush Plus* which involves three parties? Is the PC *KartRider* operated the same way?

【A】 The PC *KartRider* has been published by TianCity, and the mobile version, *KartRider Rush Plus*, has also been published by TianCity since its launch in 2013. In time for the major update, TianCity appointed Tencent as a joint operator to fully leverage Tencent's operation know-how and their market reach in China. Consequently, we were able to achieve the results as we had hoped for.

【Q】 Regarding China *Dungeon&Fighter*, you mentioned that the 11th Anniversary update in June and the Summer update in July did not resonate well with users. Is this attributable to the contents or the change in user behavior or user attributes? If it is due to changes in user behavior, should we think users are refraining from spending prior to the National Day update like we observed this year before the Lunar New Year update? Please share your analysis of what you think has been going on in the last 2 months?

【A】 We don't think that the user attributes have largely changed. It is true that we have been successful in every content update for China *Dungeon&Fighter* in the past several quarters, however, in PC online business it is not easy to have success with all updates. For the 11th Anniversary update, the contents were not well-received by users and as for the Summer update, the design of the avatar included in a package did not meet users' expectation. We are now analyzing the present KPIs and will improve them over the next several quarters.

【Q】 You recorded the additional impairment loss of approximately 2 billion yen in Q2 in addition to the impairment loss of 1.4 billion yen you baked into your Q2 guidance. It seems that the amount of impairment loss has grown larger since last Q3. On quarterly basis, how much impairment loss should we expect going forward?

【A】 The impairment loss of approximately 2 billion yen out of 3.6 billion yen recorded in Q2 is related to investments in publishing game. We challenge to grow and invest in future growth, but given the nature of online game business, we expect certain amount of impairment loss. The amount of impairment loss can fluctuate quarter by quarter and we will not be able to provide a guideline how much it could be, however, we'd like to try our best to minimize the amount in the future quarters by managing the milestones.

【Q】 Please elaborate more on KPIs for *KartRider Rush Plus* in the second part of Q3 vs July? Could you quantify how much revenue from *KartRider Rush Plus* is included in your Q3 guidance?

【A】 *KartRider Rush Plus* has been trending well in Q3 and has no issues in KPIs. We don't disclose the specific amount per title in our guidance, but its contribution to our financials is very limited.
