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NEXON Co., Ltd. (3659.JP)

Q3 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to today's NEXON's Third Quarter 2013 Financial Results Q&A Conference. Today's call is being recorded.

At this time, I would like to turn the call over to your moderator, Shumpei Kumagai. Please go ahead, sir.

Shumpei Kumagai
Head-IR Team, NEXON Co., Ltd.

Hello, everyone, and welcome. With me today are Seungwoo Choi, CEO and President of NEXON, and Owen Mahoney, CFO.

As we have done in the past, Seungwoo and Owen will each make some opening remarks. After that, they will answer questions that have been submitted by e-mail, followed by any questions that you all may have live on the call.

Before we get started, I'd like to remind you that today's call will contain forward-looking statements, including statements about our results of operations and financial conditions such as revenues attributable to our key titles' growth prospects, including with respect to online games industry, our ability to compete effectively, adapt to new technologies and address new technical challenges, our use of intellectual property and other statements that are not historical facts.

These statements represent our predictions and expectations as to future events, which we believe are reasonable or based on reasonable assumptions. However, numerous risks and uncertainties could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Information on some of these risks and uncertainties can be found in our earnings release. We assume no obligation to revise or update any forward-looking statements.

Our financial results for the third quarter, as well as our quarterly letter to shareholders from Seungwoo and Owen are available on the company's Investor Relations website. A replay of this Q&A session will be available on the website following this call.

Also please note that net income refers to net income attributable to owners of the parents as stated in NEXON's consolidated financial results.

I'd now like to turn this call over to Seungwoo and Owen for a brief introduction, and then we will begin the Q&A.

Seungwoo Choi

President and Chief Executive Officer, NEXON Co., Ltd.

Thank you, Shumpei, and thank you all for joining us today. Before we take your questions, I'd like to make a few comments on our third quarter results and the current business environment. Then I'll hand things over to Owen for some more details.

We had another strong quarter, exceeding our outlook for revenues and operating income for the fourth consecutive quarter, driven by the strong performance of new and existing titles. We also made excellent progress toward our strategic goals by making a series of investments in development studios, headed by accomplished high profile developers, which enables us to secure premium IP and expand our business in the coming years, particularly in the U.S. and European markets.

Third quarter revenues were ¥39.9 billion, and operating income was ¥16.2 billion. We generated solid growth with revenues up 64% and operating income up 53% compared to the third quarter of last year. Korea growth accelerated, and China delivered stable performance. Also, the yen continued to weaken, providing an additional boost to our revenues.

The industry is clearly undergoing a fundamental transition towards synchronized online gameplay and free-to-play monetization, areas which NEXON pioneered. At the same time, devices such as PC and mobile continue to converge. We feel that we are uniquely positioned to take advantage of these trends as our strengths are well aligned to the changes in the market.

We embrace the current platform conversions and believe that our long-term revenue growth will come from four sources. First, our ability to introduce compelling content to our existing titles. Second, our ability to develop exciting new content both through our internal development capabilities and collaboration with world-class developers. Third, the growth of our mobile business, as we continue to introduce games on multiple platforms. And fourth, through continued international expansion by leveraging our free-to-play expertise and partnerships with industry-leading developers.

We believe that the unique combination of these capabilities enables NEXON to be a global entertainment leader regardless of platform.

With that, I would like to ask Owen to provide some additional detail on our third quarter results and fourth quarter outlook.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

Thank you, Seungwoo. Our third quarter revenues were ¥39.9 billion, an increase of 64% versus a year ago. Revenues exceeded the high end of our outlook, driven by the strong performance of our new and our existing titles. Our Korean business nearly doubled on an as-reported basis from a year ago mostly from the continued growth of FIFA Online 3 and the well-received Tier 1 content updates to Dungeon&Fighter. In China Dungeon&Fighter's performance was also reinforced by successful Tier 1 content update.

Our reported results continue to be aided by the weakening of the Japanese yen. Operating income was ¥16.2 billion in the quarter, an increase of 53% year-over-year. Our operating margin of 41% once again exceeded the high end of our outlook. As anticipated, our operating margin declined on a year-over-year basis due to a change in our revenue mix, as our lower margin mobile business represents a larger portion of our overall revenue due to the consolidation of gloops and an increase in royalty costs associated with third-party IP, such as FIFA Online 3.

Net income was ¥8.1 billion, a 10% increase year-over-year. This was slightly below our forecasted range, primarily due to the U.S. dollar to Korean won exchange rate translation from accounts receivable for Dungeon&Fighter royalties from China and foreign currency deposits.

Next, turning to our user metrics. Total MAUs for the PC business decreased year-over-year to ¥62.6 million, mostly due to a decrease in users in China. While the catalyst for this decline appears to be an in-game instability issue following a Dungeon&Fighter content update during the quarter, we don't yet know whether it is a sign of any longer-term impact on MAUs. Pay rates, ARPUs and revenue increased during the quarter, important indicators that the game is healthy among its established base of users.

Our pay rate increased year-over-year from 9.6% to 10.4% as a result of well received Tier 1 updates to existing titles and a decrease in MAU by users that tend to monetize less. ARPU was up year-over-year thanks to successful content updates and received an additional boost from the weakening Japanese yen.

Continuing now with our outlook, for the fourth quarter we expect PC revenues in the range of ¥26.9 billion to ¥27.2 billion, representing 9% to 14% year-over-year growth on an as-reported basis and a decline of 12% to 7% on a constant currency basis. We expect PC growth to be slower than it has been recently on an as-reported basis in China. We expect double-digit PC growth to continue in Korea, supported by content updates in Q3 and contributions from newer titles such as FIFA Online 3. We expect revenues in Japan to continue to decline year-over-year. We also expect the weaker Japanese yen to continue to contribute to year-over-year growth on an as-reported basis.

In China, we expect Dungeon&Fighter to remain one of the top ranking titles. We announced the Open Beta launch of Cyphers on October 22 and our strategy for this game will be the same as it is for all our new title launches. We will focus on building the user base over time and introduce content that ensures long-term health for the game.

In Korea, we expect continued growth to come from FIFA Online 3 in existing titles, such as Sudden Attack and Dungeon&Fighter. The Open Beta for Dota 2 was announced on October 25 and we also plan to launch Counter-Strike Online 2 during the quarter. On the mobile platform, we expect revenues in the range of ¥5.9 billion to ¥6.4 billion. In Japan, we're launching several new browser titles from gloops during the quarter, including the RPG SKYLOCK; card battle game, Legend Cascade; and Wake Up Girls!, a tie-up with an animated television show.

SKYLOCK was released on October 23 and quickly took the number one spot on the Mobage Hot New Title Ranking and achieved over 100,000 downloads in its first full day. In the native app space, we will launch the Android version of Euro Club Team Soccer Best XI Plus.

In Korea, we continue to launch multiple titles on popular platforms, such as Kakao Online. And through direct placement on Apple's App Store and Google Play, such as Legion of Heroes and Puzzle Three Kingdoms.

We also have several titles that we plan to launch in China during the quarter. In the fourth quarter, we expect operating income to be in the range of ¥6.7 billion to ¥7.9 billion, representing an operating margin of 21% to 24%. We recorded an impairment loss for goodwill and game IP during the fourth quarter of last year.

Despite the absence for this impairment in the current year, the year-over-year operating margin decline is primarily due to an increase in royalty costs associated with third-party IP, such as FIFA Online 3 and Dota 2, a change in the geographic revenue mix given the balance of China to Korea relative to last year and an increase in the support and marketing costs for the new title launches.

With that, we would be happy to take your questions.

Shumpei Kumagai

Head-IR Team, NEXON Co., Ltd.

Next, we would like to open up the line for the live Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. Today's question-and-answer session will be conducted electronically. [Operator Instructions] We'll go first to Mia Nagasaka of Morgan Stanley.

Mia Nagasaka

Analyst, Morgan Stanley MUFG Securities Co., Ltd.

Q

Oh, hi, Owen. Thank you for taking the time talking to us. I had mainly two questions regarding to the overseas business. My first question is regarding to the westernized countries. I understand that the U.S. and European market has been struggling for the last couple of quarters. I understand that you have interesting attempts expanding to the mobile and tablet devices. However, do you think that the PC business will continue struggling and do you think that the new strategic partnership or investment projects will help to reverse the current trend in U.S. and Europe? This is my first question.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Mia, thanks for your question. Regarding the Western business, we had, going back several quarters, we had some operational challenges as you recall. We feel that those operational challenges from just game operations' perspective are largely behind us. But at the same time, we also feel that it's important for our success to have games that are appropriate and highly and broadly appealing to the Western markets. So the moves that we've been making are about our existing base of games, of course, but really about pushing and bringing to market new games.

We have a game slated for example coming up in North America that we've been talking about or we started to talk about among gamers, called Extraction, which is a first-person shooter. It's not slated for launch in Q4, but it will be coming out in following quarters. That's an example of a game that was designed in the West, but that we're merging our free-to-play knowledge and online operations capabilities with. So, we're very excited about that, but that's down the road.

But you've also seen us make several investments in Western game companies, primarily start-ups from well-known and highly successful Western game developers. So, one of the most recent ones was, for example, with Shiver Entertainment, founded by John Schappert who's the former COO of Zynga, former COO of EA and ran the Xbox Live business at Microsoft. So, he's a very accomplished Western game developer in the habit of making blockbuster titles and was responsible for games at Electronic Arts, for example, such as Need for Speed and Madden, which are two of their biggest franchises.

We think that by combining our capabilities in free-to-play online synchronous games with his knowledge of how to make blockbuster titles appropriate for the Western market, that that's going to be a winning combination. So, on the PC, we're very excited about that. But we also believe, as we've talked about before, in this idea of ultimately the PC and the tablets convergence to a single device sometime over the next several years. And so, we want to be ready for that. So, we're going to be developing on both sets of platforms.

Seungwoo Choi

President and Chief Executive Officer, NEXON Co., Ltd.

A

Just to add to the PC side, right now the game market is going through a very rapid change and that change may seem to be happening on the platform or device, but we think there are more fundamental changes. It's not just platform being changed from PC to other mobile platforms. The fundamental changes are the fact that the games are changing from offline to online, from single-player mode to multiplayer mode, and from pay-to-play to free-to-play. We think these are the fundamental changes that are happening right now in the market.

So a change in terms of device is one part of this big change that we see today. But because we think the fundamental changes are happening within the game and we're game makers, so as Owen mentioned, it's not about what kind of platform we're working on, it's about what kind of content we want to provide.

And going back to the U.S. and Europe, we are intentionally not launching any Asian taste games because we think that we need much more compelling games, appealing games, for the Western user. So that will not happen tomorrow or very soon, but we think this is the right direction. So that's where we're heading to.

Mia Nagasaka

Analyst, Morgan Stanley MUFG Securities Co., Ltd.

Q

Okay. Thank you very much. And my second question is, can you follow up on the Korean market regarding to MapleStory's condition? I understand that MapleStory is one of the most important titles in your product pipeline, Dungeon&Fighter and MapleStory, if my memory is correct, comprise about 53%, 54% of your total revenue at the end of Q2. And I recall that MapleStory in Korea, you had a big uptick in May, but it didn't meet your expectation at that time. If you have any follow-up on how it had recovered during Q3, that would be great. Thank you.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Sure. So on a worldwide basis, the combination of MapleStory and Dungeon&Fighter are roughly the same as is the number that you have there. Our performance during the quarter was mixed. July, the update that we did was received favorably, but it did not continue in August and September. So we would classify that as mixed. We continue to invest in MapleStory though because ultimately we've seen that all of our games that are long-lasting games can have up quarters and down quarters. We continue to believe that that game is well worth investing in, and so that's what we plan to do.

Mia Nagasaka

Analyst, Morgan Stanley MUFG Securities Co., Ltd.

Okay. Thank you very much.

Q

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

Thank you.

A

Operator: We'll go to our next question from Han-Joon Kim of Deutsche Bank.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Hi, thanks for taking my questions. Just a few questions. First off, you guys had an update on D&F China at the last week of September. And I would have assumed that some of that would have leaked into the fourth quarter and benefit the revenue and the operating profit trend, but I don't sense that in your guidance. So can you just give us a recap of what's going on with D&F China? Hello?

Q

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

Yeah, sorry, one second. Hi, sorry, for the delay. Yeah, first thanks for your question. Traditionally, Q4 as you know, is a seasonally lower quarter than Q3. So the seasonality is there and we're expecting for that to be there. Overall, the guidance that – or the outlook that we've put out reflects what we expect out of the game during the quarter. And so it's already incorporated in there. We continue to see Dungeon&Fighter is extremely robust and a very, very popular game. As we noted worldwide, pay rates and ARPUs were up, but as you know, the MAU number was down worldwide. So, while we don't break that up by game or by region, you can imagine that Dungeon&Fighter is a meaningful contributor to that. And the outlook that we've provided reflects what we think the input is from Dungeon&Fighter.

A

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Okay. So can I assume that your Tier 1 update at the end of September, the results of that is mixed?

Q

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

I'd say, look, the Tier 1 updates that we did during the quarter, met our expectations. And so it was within the realm of the high and low output that we did for Q3, that's what we can say.

A

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Okay. Understood. My second question is regarding Dota 2, the initial update seems to be a little bit slow. I'm wondering if this is more to do with the technical tweaking, working with the Steam platform or you're not just seeing user response to the Dota 2 game itself relative to LoL within the same genre of gaming?

Q

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Well, a couple of things about Dota 2, number one, I would say, it's extraordinarily early to make any calls about how Dota 2 is doing. It's a game that we plan to have running for a very long time, that would be point number one. Point number two, I'd say is the game has been extremely well-received by gamers around the world. The feedback from people who have played the game has been very, very strong. Of course, we've got a much longer lead time to watch what's happening in North America for example, because it's been out there in North America for longer. How it does in the Korean market remains to be seen and we think it's very, very early. So we remain excited about the gameplay and excited about the gameplay quality and very happy about how it's been received in other markets. And we're going to watch very closely to see how it's received in Korea.

Seungwoo Choi

President and Chief Executive Officer, NEXON Co., Ltd.

A

We haven't started monetization at the PC bangs, so although we're getting a lot of feedbacks from the users, I think we'll get more information once we start the monetization of PC bangs, which will be beginning of next year.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Okay. Then...

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Hello.

Operator: I do apologize. It looks like his line dropped. [Operator Instructions] We will go next to Ansel Lu of OCAM.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Hello, can you hear me?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Yes, we sure can.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Hi, can you explain a little bit on the China situation, because given your guidance, if my number is right, you seem to be implying a double-digit decline in renminbi revenue on constant currency basis, is my calculation right? And secondly, on the MAU declines, you seem to...

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Hello? Sounds like we've got a technical glitch of some sort.

Operator: No, his line is still open. I'm not sure if he accidentally placed himself on mute. [Operator Instruction]

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Yeah. So I'm going to assume, Ansel, that you can hear me. So I'll address your first question first. Maybe it would be helpful, if I could talk through what our expectations are on the PC business by region. On the Korea side, we expect on an as-reported basis, double-digit growth year-over-year; the main driver being FIFA Online 3. And on a constant currency basis, also double-digit growth year-over-year.

On the China side, we expect single-digit growth on an as-reported basis and we expect a decrease on a constant currency basis. So that's based off of Dungeon&Fighter, as well as other titles. So those are the main drives. In Japan and North America and Europe, we expect to have a down quarter in those regions.

Operator: And we will take our next question from Han-Joon Kim of Deutsche Bank.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Hi, sorry. I got cut off, my phone got cut off. But if I may, I think the CEO mentioned that you guys haven't been monetizing PC cafés at the moment in Korea for Dota 2, will that basically say, you guys haven't actually distributing games to a lot of PC cafés or that it's already distributed, but you're actually not charging anything for it yet?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

So we have distributed the game to PC cafés in Korea, but the distribution has been limited. What has not happened is we're not monetizing yet in PC cafés.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Understood, understood. And my last question is just around fourth quarter operating profit guidance. I guess the increase in royalty for FIFA and the geographic mix and the marketing support for new titles, but I think royalty is self-evident if we look at your royalty costs in the third quarter and I think we can extrapolate into fourth quarter and that shouldn't be a major driver of what's driving the quarter-over-quarter delta. So I would have to presume it's either a large marketing cost or large seasonality in the China games business. Could you just help elaborate a little bit more on that?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Sure. And to be clear, you're interested in the quarter-over-quarter change, delta in operating margins. Is that correct?

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Yes, yes.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Okay. Yeah, so, Q4 and Q2 typically have lower margins than Q1 and Q2. And Q4 has got a lower margin than Q3 because – for a couple of different reasons, obviously, you've got fixed costs associated with this. So the seasonality is a big factor. Then you have the balance of Korea and China to keep in mind, and that's relevant both year-over-year especially, but also quarter-over-quarter.

So, because we recognize the revenue that comes from China as a royalty, it's a net royalty, right, so if we counted the gross like we do in other countries, our revenue line and our growth rate would be a lot higher, but our margins would be lower. We count the net that comes from China. So if you have an expanded or a quarter in which much of your revenue or your growth comes from China, that's going to expand our margins. If you've got a quarter, conversely, where a lot of your growth comes from Korea or from your mobile business, your margins are going to be lower. And then the third factor is, of course, mobile. So the interplay of those three components, plus a few other smaller ones, are what really drive our margins.

Now in addition to that, we're also launching Dota 2 as I mentioned before. And so when you're in a launch quarter, we're going to be ramping up marketing for the launch. And you're also ramping up customer support people and operations people prior to the revenues really kicking in because, of course, you have to have the customer support people, the operations people and so on, available for all the customers, and especially for an expected big title, and then the revenue picks up over time.

So if you recall, just as an illustrative propose, if you go back to 2012, for example, our margins were in the 40% to 45% range. It actually came in a little ahead of that outside of our mobile business. And that was because it was a year in which we didn't have any new product launches. And we also had a larger portion of our business coming from China. This year it obviously changed. So those are the key drivers to keep in mind.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Understood. Just this one last question, if I may.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Yeah. Sure. Go ahead.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Just could you help quantify marketing cost that you might spend on Dota 2 and CSO2 for the fourth quarter?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Yeah. So we don't break out the marketing cost by title, but just keep in mind that it is going to be a Q-on-Q increase, given the launch of the new titles.

Han-Joon Kim

Analyst, Deutsche Securities Korea Co.

Q

Okay, great. Thank you very much.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Sure. Thank you.

Operator: We'll go next to [indiscernible] (27:34) of Goldman Sachs.

Q

Hi, Owen. Congratulations on a strong quarter. But just wanted to kind of clarify the situation in China. I feel like there will be quite a bit of discussion on this. So, it's quite concerning to kind of start – expecting a decline after a kind of three pretty strong quarters growing around 10% like clockwork. So, do you feel this is largely due to kind of an update or timing of item sales or update or new competition or – and also, should we interpret this as a beginning of a trend or should we think of this as kind of a base effect of that sort? Because this is quite a meaningful portion of your business, so just – I feel like it will be best to get as much kind of details in terms of kind of what the company is thinking about this.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Sure. So, thanks for your question. I'm going to take your question from a couple of different angles, if it's okay, taking it from both a revenue perspective and from an MAU perspective. Relative to MAUs, there were a couple of factors that resulted in the MAU decline, they were really catalysts. One was the in-game instability issue that I mentioned in the opening remarks.

The other is, keep in mind, we had a pretty significant sanctioning and elimination of or banning of user cheating tools for customers who try to take advantage of the game by using these tools. And these tools that are used sometimes hurt the experience for customers. So any game operator that cares about the longevity of their game is going to cut those types of users off.

And the third factor was the content update was really focused on higher level users. And oftentimes when we do at Tier 1 content update, our updates will focus on a specific set or group among the millions of users in the game. So in this case, this was really focused on higher level of users than our broader set. But our view is that the popularity of Dungeon&Fighter has not diminished. It's still the number one MMORPG in China and as you noticed worldwide, our pay rates and ARPUs also increased and our revenues came in above our outlook. So we're very, very happy with fundamentally how the game is. But what we're doing in operating the game and our partner is doing, is to play for the long-term viability of the game, and it's really important to keep that in mind. We want to make this game continue to last and be very strong for multiple more years. How far that goes, we don't know, but we do know that when you have a game that has the kind of appeal, the gameplay and the broad appeal that it has, what you want to do is make sure that you continue to do content updates and do things for your users to make sure that they, when they come into the game, they're going to stick around for a very long time. That's the fundamental approach that we're taking.

You add all those factors up and it's important to keep in mind that this quarter, the Q4 quarter is really not about content updates. It's a seasonally lower quarter, so we don't typically time our content updates into the Q4 timeframe. Really, we time them for the Q1 or the Q3 timeframe. Q1 being Lunar New Year and Q3 being the summer holiday. So we're really focused in Q1 or excuse me, Q4; the story is about new products that we're introducing. In China, we're introducing Cyphers and in Korea, we're introducing Dota 2 and the focus is not on content updates.

As for where it goes from here, oftentimes the catalyst for people coming back into a game is a major content update, people coming back into a game, new users coming into a game and then, general activity in the game. So, where it goes from here, we will see – we expect to see some of that play out in Q1 and Q3 next year. So, you add all these factors together and that's how we came up with our outlook for Q4.

Q

Okay. Great. Thanks a lot.

Operator: We'll go next to Ansel Lu of OCAM.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Hi, it's me, again. Sorry, I jumped out. So, I apologize if I – if you've explained the situation. So, did you confirm the double-digit kind of revenue decline on a constant currency basis?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

No. We don't break out our outlook by region.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Okay.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Overall, but what we did say was – and I'll just go through the regions again, just to give the whole picture. As we see it, Korea we expect double-digit growth on a year-over-year basis and double-digit growth – excuse me, on an as-reported basis and double-digit growth year-over-year on a constant currency basis. In China, we expect single-digit growth on a as-reported basis and we expect a decrease year-over-year on a constant currency basis. And in Japan, North America, and Europe, we expect to see those decrease on a constant currency basis.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Okay. That's very helpful. And also, like what's the latest MAU for, like October and November, if you are able to share?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

What we can share is, where we ended up Q3, which was ¥62.6 million.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Okay. Okay. And on this quarter's result, what is the reason for the higher tax rate? And can you explain further, why is the income lower because you said that's the FX rate from account receivable. Can you explain that?

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Sure. Give me one second here.

Operator: [Operator Instruction] Mr. Kumagai there are no further questions today. So at this time I would like to...

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Hold on, sorry. Operator, sorry, just give us one more second. We're still on the same last question.

Operator: Okay.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Sorry, one more second. Yeah. Sorry, the answer to your second question about net income, it's really coming from the foreign currency translation, as a result of the Korean won to U.S. dollar. We received – it's primarily around Dungeon&Fighter, we received – our royalty payments come to us in the form of U.S. dollars. So as the Korean won-U.S. dollar exchange rate changes, both in terms of money we have in the bank and accounts receivable, that accounts for that change.

And one more second on the other question. And so the question about the tax, it's really a function of we had prior deferred tax assets on our books under IFRS, and right at the beginning at Q3, the Korean Tax Authority came back to us and asked us to or imposed a different regime for how to account for those deferred tax assets, essentially these deferred tax assets went away, which resulted in a charge on our income statement. Yeah, and to be clear, that's a one-time event. Hopefully, you heard the answer.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Hello, hello, yes, yeah. That's okay.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Okay.

Ansel Lu

Analyst, Owl Creek Asset Management

Q

Very helpful. Thank you.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

A

Thank you. It sounds like there's no other questions.

Operator: Yes, sir. We have no further questions in the queue.

Owen Mahoney

CFO, Director, GM-Administration & IR Contact, NEXON Co., Ltd.

All right. Well, we thank you very much for your time this quarter.

Seungwoo Choi

President and Chief Executive Officer, NEXON Co., Ltd.

Thank you very much.

Operator: Thank you. That does conclude today's conference. We thank you for your participation. You may now disconnect.

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