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NEXON Co., Ltd. (3659.JP)

Q3 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to NEXON's 2015 Third Quarter Earnings Conference Call. Today's call is being recorded. At this time, I would like to turn the call over to Maiko Ara, Head of Global Investor Relations. Please, go ahead, ma'am.

Maiko Ara

Head-Global Investor Relations

Hello, everyone, and welcome. Thank you for joining us today. With me are Owen Mahoney, President and CEO of NEXON; and Shiro Uemura, CFO.

Today's call will contain forward-looking statements, including statements about our results of operation and financial conditions, such as revenues attributable to our key titles; growth prospects, including with respect to online game 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, projections and expectations about 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-related IR documents. We assume no obligation to update or alter any forward-looking statements. Please note, net income refers to net income attributable to owners of the parent as stated in NEXON's consolidated financial results.

Furthermore, this conference call is intended to provide investors and analysts with financial and operational information about NEXON, not to solicit or recommend any sale or purchase of stock or other securities of NEXON. Please note, we may be using Japanese-English interpretation during the Q&A session.

A recording of this conference call will be available on our Investor Relations website, www.ir.nexon.co.jp/en/ following this call. Unauthorized recording of this conference call is not permitted.

I'd like to turn the call over to Owen.

Owen Mahoney

Representative Director, President, Chief Executive Officer

Thank you all for joining us today. Uemura-san will review the third quarter results and fourth quarter outlook shortly. Before that, I'd like to share my thoughts on the highlights of the quarter and some of our key strategic developments.

First, we had another quarter of solid financial performance with revenue, operating income and net income all coming in ahead of our expectations. As you may recall, last year in the third quarter, FIFA Online 3 and FIFA Online 3 M were exceptionally strong. Both titles benefiting, at the time, from FIFA World Cup, which became a difficult comparison to this year's third quarter. In the end, our third quarter revenues grew year-over-year. We have strong execution in China and Korea, particularly during the important month of September.

Our key PC titles including Dungeon&Fighter, Sudden Attack and FIFA Online 3 drove our results in these regions. On the mobile side, we launched DomiNations in Korea, Japan, Taiwan, Hong Kong and Macau in late August. The game is off to a very good start, especially in Korea. In addition, FIFA Online 3 M performed solidly, especially around the Korean Thanksgiving holiday in September.

Secondly, I'd like to touch on some of the exciting partnership agreements we've recently announced. As most of you are aware, we've been focusing aggressively on developing partnerships with leading game developers and IP owners around the world. Our most recent announcement was a strategic partnership with the Los Angeles-based Respawn Entertainment and the developer Particle City for worldwide publishing rights for new mobile games based on the hit IP, Titanfall. This follows closely on our agreement with EA and Respawn Entertainment to develop and publish a PC online game of Titanfall, which we announced in July.

As we have told you before, our objective is to leverage our expertise in deep online game play, live game operations and our global footprint to enable us to work with the best developers in the world. The relationship with Respawn Entertainment and Particle City is another great example of this strategy.

We've also revealed our new publishing agreement with the Korean game developer, Bluehole Studio, for a mobile version of the hit PC online title, TERA. TERA Mobile is a 3D full graphic MMORPG, which will be developed by the key members of the team that created the original PC online game. The game is scheduled to launch later next year.

In addition, we announced a strategic partnership with QC Games. For those of you who don't know who QC Games is, it's a new U.S.-based studio led by industry veteran Dallas Dickinson, who is best known for his work on Star Wars: The Old Republic. He has assembled an exceptional team with AAA experience, a team that has played a key part in creating some of the world's most successful games. We acquired the exclusive worldwide publishing and marketing rights of their first online game and we are thrilled to be working with them to bring another hit title to the market.

Going forward, we will continue to look to deploy the company's capital to generate high returns for our shareholders through investments in the business, in M&A, equity investments, and the return of capital to shareholders.

Lastly, let me touch briefly on our recent exit from the equity position we had held in NCSOFT, since I know this has received some attention. As most of you know, we owned stock in the company for about three years. We made the investment in the hopes of being able to collaborate closely with NCSOFT, but that proved to be challenging. Therefore, we decided to exit our position. Regardless, we hope to maintain a good relationship with NCSOFT, and we continue to think very highly of the company. Uemura-san will talk about the details of the disposition later on the call.

With that, I'll turn it over to Uemura-san to review the third quarter results and the fourth quarter outlook.

Shiro Uemura

Representative Director & Chief Financial Officer

Thanks, Owen. Let's start with Q3 results. Revenues were ¥49.8 billion, up 9% on an as-reported basis, and up 5% on a constant currency basis. Operating income was ¥18.4 billion, up 22% year-over-year on an as-reported basis. Net income was ¥19.2 billion, up 41% year-over-year.

Our third quarter revenues exceeded our outlook. Our PC online game revenues were above our outlook, mainly driven by stronger-than-expected results from Dungeon&Fighter in China. Our mobile game revenues were near the high-end of our outlook. This was mostly due to the strong start of DomiNations in Korea, which we started Asia service during the third quarter, as well as strong performance of FIFA Online 3 M during September.

Operating income exceeded the high end of our outlook. In addition to the strong performance by Dungeon&Fighter in China, this was driven by the lower-than-planned HR costs. Net income also exceeded the high-end of our outlook, mainly due to higher-than-expected operating income in addition to foreign exchange gains from foreign currency denominated cash deposits and trade account receivables.

Turning to our performances by platform. Our third quarter mobile revenues were ¥10.3 billion, up 7% year-over-year. Within mobile, native game revenues were ¥7.2 billion, up 49% year-over-year. Revenues from native games accounted for about two-thirds of the third quarter mobile revenues. Third quarter PC online game revenues were ¥39.5 billion, up 10% year-over-year. Please refer to the Investor Presentation for our selected performance metrics for PC online games.

Continuing on with third quarter regional highlights. Our revenues from China business were ¥20.2 billion, up 29% year-over-year on an as-reported basis and up 24% on a constant currency basis. We released two large-scale content updates for Dungeon&Fighter in the third quarter. Specifically, we introduced a summer update on July 2 and the National Day update on September 22. Revenue performance in September was strong throughout the month, even before this introduction of National Day update, which was also well received by users. Third quarter MAUs and number of paying users for Dungeon&Fighter increased quarter-over-quarter. During the third quarter, we also launched our mobile game Pocket MapleStory in China.

Revenues for the Korean business were ¥20.2 billion, up 1% year-over-year on an as-reported basis and down 2% on a constant currency basis. Our key PC online games such as Dungeon&Fighter, Sudden Attack, and MapleStory showed year-over-year growth. Third quarter revenues of FIFA Online3 were down year-over-year simply because of the difficult comparison with the last year's third quarter, when the FIFA World Cup was taking place. The game showed strong performance, particularly during the Korean Thanksgiving holiday in September. We also

started servicing a new PC online game MapleStory 2. In mobile as with PC, FIFA Online 3 M showed a very strong performance especially during the Korean Thanksgiving holiday in September.

In addition, DomiNations which launched in the third quarter had a strong start and contributed to revenue. Since its launch on August 26, it has been ranking around top 10 of the Korean GooglePlay and iOS top grossing.

Revenues from our Japan business were ¥5.0 billion, a 31% decrease versus a year ago. Mobile revenues were ¥3.7 billion, a 33% decrease year-over-year and 8% decrease quarter-over-quarter. Both native and the browser game revenues decreased quarter-over-quarter. In the third quarter, we launched mobile game MapleStory Pocket and DomiNations. PC online revenues were ¥1.2 billion down 26% year-over-year and down 11% sequentially.

Revenues in North America were ¥2.0 billion, a 44% increase versus a year ago on an as-reported basis and a 23% increase on a constant currency basis.

Our revenues in Europe and other regions were ¥2.4 billion, an 83% increase versus a year ago on an as-reported basis and 72% increase on a constant currency basis.

Revenue growth was driven by DomiNations which launched in Taiwan, Hong Kong, and Macau in the third quarter. Please keep in mind that the "Others", component of "Europe and Others" category includes revenues from all other Asian countries excluding Japan, Korea and China.

Now, let me turn to our Q4 outlook. For the fourth quarter of 2015, we expect revenues in the range of ¥40.1 billion to ¥42.9 billion, representing a 7% to 0% decrease year-over-year on an as-reported basis. We expect operating income to be in the range of ¥9.7 billion to ¥11.8 billion and net income to be in the range of ¥7.8 billion to ¥9.5 billion.

In China, for fourth quarter revenues, we expect low-teens to high-single-digit percent decrease year-over-year on an as-reported basis. Our key PC online game, Dungeon&Fighter is scheduled for winter update in December. We expect our fourth quarter revenues in China to decrease year-over-year due to a difficult comparison with the same period of last year when Dungeon&Fighter revenue was exceptionally strong driven by particularly well received item sales. As for fiscal year 2015, full-year revenues for Dungeon&Fighter we expect low-teens percent increase year-over-year on an as-reported basis.

In Korea we anticipate low-single-digit to high-single-digit positive increase year-over-year on an as-reported basis for the fourth quarter revenue. On the PC online side, a new publishing title AIMA was launched in October. In addition to this, we are scheduled to launch Tree of Savior and Ar:pieL. We also are obviously conducting closed beta testing for Need for Speed Edge.

On the mobile side, we launched our internally developed title Fantasy War Tactics on November 5. Highly anticipated publishing title HIT is also scheduled for launch in November. Also we are presenting six new PC online and seven new mobile titles at G-STAR, the largest game exhibition in Korea scheduled to run from November 12 through November 15.

In Japan, we expect fourth quarter revenues to decrease 30-plus percent year-over-year on as-reported basis. On the PC online side, we conducted a closed beta test for Tree of Savior in October. We also recently announced our new publishing titles Devil's Third Online, the PC version of the popular console game Devil's Third developed by Valhalla Game Studios. It is scheduled for a closed beta test soon.

On the mobile side, Mabinogi Duel and Fantasy War Tactics are scheduled for launch. Pre-registration started for LAPLACE LINK a new mobile browser game currently developed by gloops. LAPLACE LINK is a title where various ambitious challenges were made to realize a rich and innovative browser game.

In North America, we expect revenues to increase 40-plus percent to 50-plus percent year-over-year on an as-reported basis. In Europe and other regions, we expect revenues to increase 70-plus percent to 90-plus percent year-over-year on an as-reported basis.

In early October, a closed beta test for the FPS, Ghost in the Shell Stand Alone Complex-First Assault Online based on the popular IP Ghost in the Shell was conducted in North America, Europe, and Oceania.

In the fourth quarter, we expect our operating margin to be in the range of 24% to 28%. In the fourth quarter of 2014, we had an operating loss of ¥0.7 billion due to an impairment loss we recorded of ¥12.4 billion [ph] on our (18:30) subsidiaries goodwill, as well as tangible and intangible assets.

If we add back the amount of impairment loss, which is a one-time charge, the adjusted operating income for the fourth quarter of 2014 would be ¥11.7 billion. In comparison to this adjusted operating income, the high end of our operating income outlook for the fourth quarter 2015 is ¥11.8 billion, representing a year-over-year increase of ¥0.1 billion from the fourth quarter 2014 adjusted operating income.

We expect [ph] some increased and some decreased cost (19:22) items to roughly offset each other resulting in year-over-year flattish operating income for the fourth quarter 2015. We expect marketing cost to increase in connection with the launch of multiple new PC and the mobile titles as well as increase in variable cost including royalty in relation to growth in the third party licensed games and PG fee with growth in the mobile business. On the other hand, we expect a significant decrease in amortization expense due to completion of amortization associated with Dungeon&Fighter IP.

Lastly, let me give a little more detail on the sale of our NCSOFT shares, which Owen mentioned earlier. On October 16, we sold all the shares of NCSOFT owned by NEXON Group, approximately 3.3 million shares. This is equivalent to 15.08% of NCSOFT's outstanding shares. The disposal price was KRW 183,000 per share. Total proceeds from the sale was approximately KRW 605 billion or approximately ¥64 billion.

In relation to this, in the fourth quarter, we expect to record gains from the sale of investment securities of approximately ¥6.7 billion in the consolidated income statements. Please note that we follow International Financial Reporting Standards and gains from the sales are not recorded in the consolidated income statements under the standards.

Now, we'll be happy to take your questions.

Maiko Ara

Head-Global Investor Relations

Thank you, Uemura-san. Next, we will like to open up the lines to live Q&A.

QUESTION AND ANSWER SECTION

Operator: Today's question-and-answer session will be conducted live over the phone. [Operator Instructions] Our first question comes from Mr. Han-Joon Kim from Deutsche Bank. Please go ahead.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Hi, guys. Hope everything is well and congratulations on a strong quarter. I just had a few questions for you guys. But to start off, I just wanted to double-check with Uemura-san what you've mentioned at the end that you will or will not book taxation regarding to NCSOFT stake in fourth quarter?

Shiro Uemura

Representative Director & Chief Financial Officer

A

Hi, Han-Joon. Thank you for your questions. I'm going to answer in Japanese [ph] and translating is following (23:03). Okay.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Sure.

Shiro Uemura

Representative Director & Chief Financial Officer

A

Thank you very much. I understand that you are asking questions pertaining to the sales proceeds and related tax of NCSOFT. And needless to say, since we conducted the sales of the stocks in Q4, we will be recognizing the numbers in Q4. But please be aware of the fact that the numbers will be recognized in the unconsolidated statement, whether it be the proceeds for sales or tax expenses. And under IFRS, it will not appear on the consolidated income statement whether it be tax or proceeds from the sales. So there will be no impact on the consolidated income statement.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Understood. Thank you very much. Just a quick question on DomiNations, any thoughts on when we might be able to see a China launch for that game?

Shiro Uemura

Representative Director & Chief Financial Officer

A

We have not decided concretely when we are going to launch DomiNations in China. But regarding Asian countries, we have successfully launched DomiNations in both Korea and Japan, and so we will be working our best to launch their title in China as well. But please be aware of the fact that we haven't [ph] decided on a publisher yet (25:46).

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Okay. Understood. And a follow-up. I think I was a little bit surprised to see your North American operations' widened the losses despite a growing revenue. I assume that as you scale revenues that losses might narrow. Can you just give us an update of how you're looking at the financial performance for the North American operations and what kind of initiatives are underway that they might be able to see profitability come through from that part of your business?

Shiro Uemura

Representative Director & Chief Financial Officer

A

Regarding our U.S. business, unfortunately we are not recording profit yet. But with the existing titles' operation and also the new titles coming up, I do believe that those titles will contribute to the increase of the revenues, and thus, in the end of the day, lead to profitability.

And as you've mentioned, we will try to increase the revenue as much as possible, so that we can capture on the scale merit. And with the scale we will be able to absorb different expenses. When you compare our PC and mobile business, PC business has higher profit margin, and relatively speaking, mobile has slightly lower profit margin as compared to PC; but in the end of the day, if we can increase the topline and absorb these expenses, we do believe that we can reach profitability. So we will put our very best effort to further enhance our revenues.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Okay. Thank you very much. Just on D&F China, I know of the particularly strong update that how you guys beat this quarter. I'm just wondering if this was just part of the typical seasonality that we see with game content update or do you feel like you guys have gotten things right. I know there has been some management change within Neople recently. I don't if that's been helping improve operational efficiencies. I just generally want to get a sense as to whether this is just – sort of comes with a territory or if we're seeing some structural improvements with D&F China PC?

Shiro Uemura

Representative Director & Chief Financial Officer

A

We did do very well in China regarding Dungeon&Fighter in Q3. We do not conduct any major changes in terms of the operations. Of course, we did different events to boost the players heading towards National Day of September and we did conduct updates and the package sales were very good. But all-in-all, in the month of September, overall revenues went up. So we did make some new efforts like the events heading towards the National Day, but we did not make any changes to the operation itself.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Okay. And my last question is hopefully directed at Owen. I recognize that your need to balance investment into your business and shareholder returns and I recognize what you said earlier regarding the cash position and [indiscernible] (31:42) and what not, but can you just give us a better sense of what that means and maybe what's going on in terms of – at what point – what milestones do we need to see for us to be able to say, okay, the company has exhausted its options of looking for M&A and there might be more shareholder returns, like what are the key criteria that you are looking at when you think about the cash [ph] pie (32:07) that you have and [indiscernible] (32:09) and shareholder return?

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Sure. Han-Joon, thanks for your question. As you know, we've got a strong cash position. It just got stronger, because we converted our shares in NCSOFT into cash. And as we've said before, we like having a strong cash position, because it gives us a lot of strategic flexibility depending on what happens in a very dynamic market, and we think that we are living in [indiscernible] (32:42) in the games business and in the broader market, the potential for very dynamic times.

And we'd like to think of ourselves as value investors. That is we do a lot of homework on a bottoms-up basis in terms of what an M&A or equity investment target would look like. We think about the investments from a strategic perspective. We are a strategic investor, not a financial investor. And we want to be in a position to move quickly, should opportunities arise. And the type of environment in which opportunities arise typically are ones – in large numbers are typically ones where the financial environment can be sort of tricky and therefore you want a cash balance, a strong cash position to be able to move quickly should those opportunities arise.

Having said that, as you've heard us say before, we also are very much focused on shareholder returns and we have a track record of moving forward with shareholder returns when we feel that our shares, which we know a lot about, and the health of our company which we know a lot about, are trading at the wrong price or at a price where we have a difference of opinion about what the value is the company.

So we balance all those. And I am not sure we have a rule set or an algorithm that I can tell to you because the environment does have so many factors going on at any one position, but I will say that we do like having a strong cash position because we like to be able to move very, very quickly and have the flexibility of doing so on a very short notice should the – should prices get in the right range for us or should strategic opportunities come forward very quickly. We haven't had a big opportunity like that recently, but we do want to have that available in the future. So hopefully that provides some help in understanding how we think about it.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Okay. Apology asking this on an ongoing basis, Owen, bear with me and I think lots of investors are interested [ph] in this comments (34:50).

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Well, you're always welcome to ask that question and we'll try to explain to you as best we can.

Han-Joon Kim

Deutsche Securities Korea Co.

Q

Okay. Thank you very much. So that's all from me. Thank you.

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Thank you very much.

Operator: [Operator Instructions] Our next question comes from Mr. Brett Moshal from Orbis. Please go ahead.

Brett Moshal

Orbis Investment Advisory Ltd.

Q

Congratulations on another great set of results, guys. First of all, you mentioned the end of amortization for D&F in Q4 ¥2.2 billion impact, I am correct in understanding then that would be on an annualized basis an ¥8.8 billion impact and the tailwind for next year of about ¥6.6 billion, all things equal, earnings up ¥6.6 billion as a result of that?

Shiro Uemura

Representative Director & Chief Financial Officer

A

Hi, Brett. Thank you for your questions. Yes. Your calculation regarding the amortization expense is correct, because we have completed the amortization. So when you compare FY 2014 and this year and what will happen in 2016, you're right, the difference that you have mentioned right now exist between 2014 and 2015. And regarding the comparison between FY 2015 and FY 2016 that gap will just be nullified.

Brett Moshal

Orbis Investment Advisory Ltd.

Q

So in 2016, assuming all other things equal, profits up by about ¥6.6 billion [ph] on this (37:38)?

Shiro Uemura

Representative Director & Chief Financial Officer

A

Let me be more precise in explaining to you the situation. We have completed amortization in the end of August 2015, and on a monthly basis the amortization cost was ¥700 million. Therefore, regarding this year, there will be no amortization fee in the month of September, October, November and December and next year, for the full 12 months, there will be no amortization of ¥700 million per month.

Brett Moshal

Orbis Investment Advisory Ltd.

Q

Correct. Thank you. That's very helpful. So I guess about a ¥5.6 billion positive impact. That should be a great help to you next year. My next question relates to D&F Mobile, could you give us an update as to the timing of the release of this?

Shiro Uemura

Representative Director & Chief Financial Officer

A

Regarding Dungeon&Fighter Mobile, both NEXON and Tencent believe that this is a very popular IP and we have high expectations towards the launch of this mobile title. We are aiming at having high quality, therefore, conducting a very stringent test. Unfortunately, it seems to be very challenging to launch, Dungeon&Fighter mobile within this year. And if your question is, then, when in 2016, unfortunately, I cannot give you any definitive date now. But please be rest assured, we will put our very best effort so that we can provide high quality mobile Dungeon&Fighter as soon as possible in China.

Brett Moshal

Orbis Investment Advisory Ltd.

Q

All right. Thanks. Just my final question and – well, perhaps, two more questions actually. Your guidance for D&F and I guess for China as a whole for Q4 of high single-digit to low-teens decline, could you give us some color on that? Presumably, you have such a first half of the quarter, up to mid-November, would that be consistent with what you're seeing up to that?

Shiro Uemura

Representative Director & Chief Financial Officer

A

The outlook for Dungeon&Fighter in China for Q4, of course, we have looked at the recent figures, and we made our very best effort to come up with the best estimate given the fact that we only have about a month-and-a-half to go until the end of Q4. And when you compare Q4 year-on-year, the number looks slightly weaker than the previous Q4. And please let me explain to you the comparison between Q3 and Q4 of 2014 with those of 2015. In 2014 business of Dungeon&Fighter, in Q3, was as usual whereas in Q4, it was very strong. In 2015, the situation between the quarters have been reversed between Q3 and Q4. But when I talk about the full year performance of Dungeon&Fighter, when you look at a growth level between 2014 and 2015 on an as-reported basis, we estimate the growth to be about 10% and the recent KPIs look very strong, so I believe that the title is trending favorably.

Brett Moshal

Orbis Investment Advisory Ltd.

Q

Great. Thank you. That's all from me.

Operator: Our next question comes from Mr. Adam Wolfman from Surveyor Capital. Please go ahead.

Adam Wolfman

Surveyor Capital

Q

Thank you very much for taking my questions. My first question relates to the guidance that you've offered for marketing costs in the fourth quarter to increase sequentially by ¥1.5 billion, perhaps you can address which titles in particular are in focus for your marketing expense in Q4 and to what extent, also any new titles or additional new launches that are planned in the fourth quarter that are parts of that – reflected in that net marketing expenditure plan?

Shiro Uemura

Representative Director & Chief Financial Officer

A

Hi, Adam. Thank you for your question. In Q4, we have many new titles planned to be launched. For example, in Korea, we plan to launch mobile HIT and also we have high expectations towards the launch of Super Fantasy War. And we plan to have a TV commercial of DomiNations and also heading toward winter break, we will be having marketing expenses on FIFA Online 3 as well. We will consider what kind of ROI we can capture by investing in those marketing activities, but we hope that by doing so, that will boost our revenues.

Adam Wolfman

Surveyor Capital

Q

Any additional context you can offer at this point in terms of the extensive pipeline that you've described on slide 18 in the presentation for 2016, just regarding the sequencing of the launches coming out of that pipeline? How we should think about the progress? Perhaps, what might be coming to market in the first half of next year?

Maiko Ara

Head-Global Investor Relations

A

Please give us a moment, while we translate.

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Hi. This is Owen. Thanks for your question. I'll just answer briefly. It's – I think the [ph] source (48:42) of your question is, which of the titles are particularly interesting. As you can see from page 18, we actually have a lot of titles launching. It is hard actually, from at this stage, to pick a few out of that group that we're particularly more, more excited about than others.

What I would say at it is just as background over the last year-and-a-half, we have worked very hard to call down or narrow down our pipeline of new titles into ones that we believe very strongly and not all of those will be successful, but what we are targeting very much is a quality bar that's very, very high. And so as they get closer to launch, we get a better sense for how they look, but overall, right now, we're very excited about our pipeline and therefore we anticipate, as they launch and as our – if our expectations are for high retention of users, that will mean that we have a high potential return on investment of our marketing dollars. And, therefore, it's safe and proper for us to be investing against the marketing of those titles. So across the board, we feel very strong about the quality bar of the pipeline that we have in front of us.

Adam Wolfman
Surveyor Capital

Q

Owen, it's very – perhaps my question wasn't clear. I was asking a little bit about – thank you for your response and certainly encouraged by the focus in the pipeline. If you can also just address sequencing through the year of some of the launches and then perhaps also related to the pipeline, to what degree should investors also expect additional launches beyond what you've outlined here as the principle slate in 2016?

Owen Mahoney
Representative Director, President, Chief Executive Officer

A

Okay. So on the first question, it's hard for us to give you specific sequencing because we haven't announced dates for most of those titles. But they are generally laid out on the page 18 in the way that we think it will lay out in the year and beyond. So some of them are going to be earlier, some of them are going to be a little later. For example, LEGO, we expect a little later in the year; FINAL FANTASY mobile, we expect a little further down the line and then some – then, for example, LAPLACE LINK by gloops in Japan, which is coming up quite shortly.

As for the second questions on more launches, we haven't put those on the page or announced them more specifically, but you have seen us making a series of announcements over the last several quarters and that should provide a pretty strong guidepost as to what we think down the line. We have, what we consider, a very robust pipeline for 2016 and then that extends well beyond that.

When we make a mobile game, this is as a general rule or general rule of thumb, the development timeline is somewhere between 18 months and 24 months. When we make a PC game, that general rule is between two years and three years to three-and-a-half years in terms of development timeline. So it really depends on a lot of different factors, but that will give you some sort of guidepost. And as you've noticed, we've been – had a fairly study metronome of announcements over the last eight quarters or so on games that we've either – that we've done development or IP-related deals with. So you should see those start to come out according to that timeline.

Adam Wolfman
Surveyor Capital

Q

Thank you. And, one additional question on D&F mobile, would it be possible to share where you are in this specific progress towards moving that title ultimately to market and through the launch process? What level of testing has been conducted so far? Or what would you anticipate to be additional milestones between now and the ultimate launch date?

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Yeah. We can't provide much more detail than what we've already said. We're working very hard on the title we've got. It's obviously a Neople title, Neople is one of our strongest studios. We're working very closely with the partners at Tencent. So we're working very hard on it.

Adam Wolfman

Surveyor Capital

Q

Okay. And one last question for me on the topic of cash return. I understand that there are legal restrictions in the Japanese market regarding the amount of capital that maybe paid out relative to your retained earnings, and as a reflection of the prior goodwill impairments that you've taken, that retained earnings amount that exists on – in NEXON's financials is a relatively small amount in comparison to your cash position today. Can you speak to any elements of flexibility that you might have or that you've explored could potentially allow pathways to greater capital return?

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Sorry, we're just going to translate the question, so Uemura-san can answer for you. Give us one second here. Thank you.

Shiro Uemura

Representative Director & Chief Financial Officer

A

Hi. Regarding our policy/philosophy of shareholders' return, we emphasize that notion. And basically, we try to strike a balance between investments for future growth and shareholders' return. Talking about the shareholders' return, there are two components, namely by dividends or by share buybacks. And in both cases, the underlying capital that we can leverage on are limited to capital surplus and retained earnings under the corporate laws. So we will not be able to provide dividends above what we have as capital surplus or retained earnings, but we will try to continue striking the balance between the two components.

Adam Wolfman

Surveyor Capital

Q

Thank you for taking my questions.

Owen Mahoney

Representative Director, President, Chief Executive Officer

A

Thank you.

Operator: This concludes the question-and-answer session. Ms. Ara, at this time, I'd like to turn the conference back over to you for any additional or closing remarks.

Maiko Ara

Head-Global Investor Relations

Thank you. If there are no further questions, I would like to take this opportunity to thank you for your participation in this call. Please feel free to contact the NEXON IR team at investors@nexon.co.jp, should you have any further questions. We appreciate your interest in NEXON and look forward to meeting you whether it is here in Tokyo or in your corner of the world.

Operator: Thank you. That concludes today's conference. Thank you for your participation. You may now disconnect.

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