

FY2017 Q2 Earnings Presentation (Held on August 10, 2017)

Q&A Summary

【Q】 If you look at the Q1 and Q2 results on *Dungeon&Fighter* and conduct an analysis, what can you tell me about the drivers for the revenues growth? You had level cap update that drove the strong result in Q1. Please tell me what factors led the growth in Q2.

【A】 In Q1, we had level cap update and also content update. We position China *Dungeon&Fighter* as an important game for Nexon, so we are operating the game discreetly. We try to operate the game to avoid sudden upswings or downswings. We believe the reasons behind the growth were our careful KPI analysis, communication with users, deep experience with long run titles, and also high quality content updates and live operations. We are seeing increases in MAU and paying users year-over-year while ARPPU is steady. This trend represents the growth of the game. We expect this momentum to continue in Q3.

【Q】 It seems the royalty cost ratio versus revenues increased in Q2 compared to Q1 . Was there one-time payment as royalty?

【A】 In terms of royalty fee, cost ratio depends on which titles are contributing during the quarter. Thus, royalty fee ratio versus revenues is not always constant. It is relatively high in Q2 because *Dynasty Warriors Unleashed* performed well.

【Q】 *Lineage 2 Revolution* is a big title in Korea and it is difficult for other RPGs to compete. You have just launched *Dark Avenger 3* and its recent figures seem good, but how do you think *Dark Avenger 3* can compete in such market?

【A】 We understand Korean market is becoming more competitive. We agree that *Dark Avenger 3* is not a completely different genre compared to *Lineage 2 Revolution*. However, we believe we can compete against the top grossing ranked games if we can develop & publish high quality games. Our focus is on game's longevity rather than initial rankings on the top grossing chart. *Dark Avenger 3* is showing good retention rate and we anticipate highly from this title.

【Q】 Compared to *Dark Avenger 1* and *Dark Avenger 2*, does *Dark Avenger 3* have better KPIs?

【A】 It is too early to tell but we are happy with its early KPIs.

【Q】 I wonder if *LawBreakers* will be for more niche audiences.

【A】 *LawBreakers* is particularly designed for arena FPS market. It is also underserved market. If we give gamers what they want to play, they will continue to be loyal. Once they are loyal, they can gradually expand out to broader market. It is also a fun game to watch and it has a potential for viewership on online movie platforms like Twitch and YouTube, and eventually for E-Sports.

【Q】 Do you plan to push E-Sports?

【A】 E-Sports would come organically from the user community. We support E-Sports if community want the game to be E-Sports. We are pioneer in E-Sports and have long experience in Korea. The market will inform us when it is ready for E-Sports.

【Q】 Do you feel competitive pressure from *Player Unknown Battle Ground*?

【A】 We believe it is not about market share. If there are better games, more people are drawn to the games. The more good games we have in our industry, like *Player Unknown Battle Ground*, the more gamers play more often. In a long term, we think this is good for the industry.

【Q】 Revenue breakdown shows 76% for PC and 24% for mobile and I believe there are more PC titles in overseas. Are you planning to increase mobile ratio?

【A】 We are not targeting a PC / mobile ratio. Historically, we have many titles for PC. Korea and China are PC heavy markets and our games tend to last and grow for a long time. We are also developing heavily for mobile today, for instance *Dark Avenger 3*. We believe those devices will ultimately converge and we are managing our business that way.

【Q】 In the US, there are E-Sports events. Do you plan to have E-Sports events in Japan using Nexon's titles or third party's titles?

【A】 It feels early in Japan. When you compare to the level of maturity in Korea, Korea is further along. We have Nexon Arena, the E-Sports stadium in Korea, and usually the place is full of people. Seeing E-Sports live is popular in Seoul, but we believe it is still too early in several countries.

【Q】 How is initial KPI of *Dark Avenger 3* compared with *HIT*? I hope I can get some sense to measure potential of the game. Also, what is your global strategy for this title?

【A】 Retention rate is at a satisfactory level. It is almost equivalent to *HIT*. Although Korean market is becoming more competitive today, we are happy that *Dark Avenger 3* is showing equivalent level of performance with *HIT*. As in global expansion plan, we want to expand into other markets since the title was developed in-house and has strong IP popularity especially in Asia. At this moment, there is no specific plans we can announce about its global expansion plan.

【Q】 Could you give more explanation about tax rate? What rate do you expect for the second half?

【A】 Quarterly tax rate changes as there are different factors every quarter. About 20% tax rate is expected for full year unless there are major aspects to have an impact on.
