

**NEXON Co., Ltd.**

**Q1 2019 Earnings Prepared Remarks**

**May 10, 2019**

**Owen Mahoney, Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.**

Thank you all very much for joining us today.

I'm very pleased to report that we've had an outstanding start to 2019. Our top two franchises, *Dungeon&Fighter* and *MapleStory* are stronger than they have ever been.

Revenues, operating income, and net income have all exceeded the high end of our expectations, representing a record-breaking quarter, and beating the extraordinarily high comps of Q1 a year ago. On a constant-currency basis, our business grew year-over-year in all regions, reflecting solid execution worldwide, particularly in China and Korea.

We're seeing enormous stability and longevity in our core franchises, especially in Nexon's wholly-owned IP. We're extremely fortunate to have an amazing team that is uniquely successful at growing online games and virtual worlds over a long period of time.

And we're off to a solid start on several new products.

Let me share with you some of the highlights of a great Q1, that also set us up well for Q2 and beyond.

Last quarter, we said that China *Dungeon&Fighter's* Lunar New Year update had started well. The strength of the Lunar New Year sales continued into the back half of the quarter, and sales in March were strong, exceeding our expectations.

As a result of these, *Dungeon&Fighter's* Q1 local-currency basis gross revenue was as high as last year in the 1<sup>st</sup> quarter, which is especially noteworthy given the very high comps in 2018 Q1. China *Dungeon&Fighter* has once again proved itself to be in great shape.

Our Korea business was remarkably strong across various titles in the 1<sup>st</sup> quarter.

Revenue for the PC version of *MapleStory*, first launched 15 years ago, grew 69% year-over-year, exceeding the high expectations baked into our guidance. This is on top of 34% year-over-year growth in Q4 2018, and 129% year-over-year growth the quarter before that. *MapleStory* now has delivered its fifth quarter in a row of very strong double-digit or even triple-digit growth. Moreover, we expect the momentum to continue from Q1 and its revenue to grow year-over-year yet again in the 2<sup>nd</sup> quarter.

As a side note, the mobile version of *MapleStory* in Korea also recorded double-digit or triple-digit year-over-year growth for its fifth consecutive quarter, just like the PC version.

*FIFA ONLINE 4* also had an excellent start to the year, driven by successful Lunar New Year sales and March sales promotions. Combined PC and mobile revenues were nearly up to the level of the original *FIFA Online 3* in Q1 2017, after the successful service transition last year from *FIFA Online 3* to *FIFA ONLINE 4*.

Q1 also saw the resurgence of some of Nexon's other most enduring franchises. *KartRider* – Nexon's casual racing game – has experienced a major resurgence. Originally introduced 15 years ago, in 2004, over the game's lifetime, fully a half of the Korean population has played the game, and globally the registered user base has exceeded 380 million. In Q1 of this year, the game grew over 3x year-over-year, is now ranked 5<sup>th</sup> among Korea PC online games, with a 4% market share in Korean PC Cafés.

While not as large as *Dungeon&Fighter*, *MapleStory*, and *FIFA ONLINE*, *KartRider* is a great example of Nexon's ability to generate long-lived and resurgent performance in an existing online game, long after the original launch. This is what we mean by "Forever Franchises", which we can revive and bring to a continually expanding base of fans.

Moving to new games, in March we launched a mobile version of *Crazy Arcade BnB* – a title we originally launched 18 years ago on PC. In Korea, it generated over 5 million downloads in just 4 days. Globally combined, it has exceeded 10 million downloads. What's even more interesting is the launch of the mobile version has had a positive impact on both new users and active users on the original PC version. This is a theme we have now observed on several mobile titles such as *MapleStory M* in Korea – the launch of a mobile version of our popular franchises benefits, rather than cannibalizes, our PC game. We think this bodes well for the future, as we introduce more mobile versions of popular PC IP, such as *Dungeon&Fighter 2D* mobile and *MABINOGI MOBILE*.

We will announce more in coming quarters.

In April, we started the Japan service of *MapleStory M*, and it's off to a great start. The game exceeded a million downloads in a week and appears to be resonating as well with our players in Japan as it has in Korea and other regions. We're particularly excited about it given the long-term solid performance of its service in Korea and globally.

As mentioned previously we have been applying AI tools to our live and newly-launched games, to augment the great work by our live operations teams. We have already seen positive impact of these tools in retention and monetization, so we plan to continue our investment in this area.

And finally, let me update you on our latest progress on *Dungeon&Fighter 2D* mobile. In China, together with our partner Tencent, we started open registration for its next closed beta test on Tencent's WeChat Game, QQ Game, and MyApp platforms in March. This test, which will begin soon, follows up on the one we held in January. We'll keep you posted on further progress.

During Q2 and Q3 we will be making further announcements about launches of new products around the world.

I'd like to close by complimenting and thanking the thousands of Nexon employees around the world. Their incredible work on games like *Dungeon&Fighter*, *MapleStory*, *FIFA ONLINE*, and *KartRider* is truly the gold standard for making massive franchises grow year after year. And the stable base of revenue and operating income from these "Forever Franchises" enables us to introduce exciting games on mobile, PC and other platforms to a rapidly growing Total Addressable Market of gamers in an increasingly converged world. Our world-class teams, our IP, and an innovative and growing AI technology stack, and projects underway in the West including those from Embark Studios set us up well for success through the rest of 2019 and well beyond.

We have ambitious plans for the future and we're excited to share those plans with you in coming quarters.

With that, I will turn the call over to Uemura-san to discuss the Q1 results and Q2 outlook.

**Shiro Uemura, Representative Director and Chief Financial Officer, NEXON Co., Ltd.**

Now, let's move on to the Q1 results.

We're pleased to report that revenues exceeded our expectations for the quarter. Q1 revenues were 93.1 Bn yen, up 3% year-over-year on an as-reported basis, and up 7% year-over-year on a constant currency basis.

The revenue outperformance was primarily driven by stronger-than-expected performances of China *Dungeon&Fighter*, *MapleStory* and *FIFA ONLINE 4* in Korea, as well as the new mobile game *Lyn*, which we launched during Q1.

Consequently, both PC and mobile revenues exceeded our outlook.

Operating income was 52.6 Bn yen, exceeded our outlook driven by the revenue outperformance, while recording a 2.9 Bn yen impairment loss, primarily on prepaid royalties.

Net income was 53.4 Bn yen, which exceeded our outlook primarily driven by the operating income outperformance as well as a 6.3 Bn yen FX gain mainly on our U.S. dollar-denominated cash deposits related to the depreciation of the Korean Won against the U.S. dollar during Q1.

Revenues from our China business in Q1 exceeded our expectations, driven by *Dungeon&Fighter's* stronger-than-expected Lunar New Year package sales and item sales in March.

The unfavorable FX rate caused Q1 China revenue to decrease year-over-year; however, on a constant-currency basis, revenues were flat year-over-year.

Q1 *Dungeon&Fighter's* revenue exceeded our expectation, driven by the outperformance in March. Its local currency basis revenue was roughly flat year-over-year even compared to the high base set in Q1 2018, when it marked quarterly revenue at a record-high since it began service in the region.

For *Dungeon&Fighter* in Q1, we introduced the Lunar New Year update on January 21<sup>st</sup>, which continued until April 4<sup>th</sup>. It consisted of limited-time-offer dungeon and avatar package sales.

We also introduced the Level cap release on January 21<sup>st</sup>.

Revenues, ARPPU, MAUs, and paying users for *Dungeon&Fighter* all increased quarter-over-quarter due to typical seasonality.

MAUs slightly decreased year-over-year.

Paying users also decreased year-over-year mainly due to the high comps with last year's Q1 as we had expected.

Meanwhile, ARPPU increased year-over-year driven by the strong sales of Lunar New Year avatar package.

ARPPU increased while paying users decreased, resulting in local-currency basis revenue being roughly flat year-over-year.

Revenues from Korea in Q1 exceeded our expectations, primarily driven by stronger-than-expected performances of *MapleStory*, *FIFA ONLINE 4*, and the new mobile game *Lyn*, which started service on March 14<sup>th</sup>.

As a result, both PC and mobile revenues in Korea exceeded our outlook.

*MapleStory's* revenue in the latter half of the quarter exceeded our expectation, primarily driven by the successful contents update and Lunar New Year sales promotions.

KPIs including MAUs, ARPPU, and paying users increased and revenue grew by 69% year-over-year.

*FIFA ONLINE 4* and *FIFA ONLINE 4M's* revenues exceeded our outlook, driven by stronger-than-expected sales in March with successful introduction of high-level players, package sales, and promotions.

*FIFA ONLINE 4's* revenue increased significantly compared to last Q1, when it was negatively impacted by the service transition, and has come very close to reaching the scale of 2017 Q1 *FIFA Online 3* in its 5<sup>th</sup> service year.

PC revenues increased year-over-year, primarily driven by increases in *MapleStory*, *FIFA ONLINE 4*, and *KartRider*.

Mobile revenues decreased year-over-year. The increase in *FIFA ONLINE 4M* and contributions from multiple new mobile games, which began services in Q1, including *Spiritwish*, *Lyn*, and *Crazy Arcade BnB M*, were more than offset primarily by deceleration of *OVERHIT* and *AxE*.

PC revenues increased while mobile revenues decreased year-over-year, resulting in a year-over-year increase in our Korea business for Q1.

Revenues from our Japan business in Q1 were below our outlook, due to lower-than-expected contribution from *FAITH*, which started service in Q4 2018.

Meanwhile, revenues increased year-over-year, driven by contributions from *FAITH*, *Dynasty Warriors: Unleashed* and *OVERHIT*, which launched in 2018, as well as *DarkAvenger X*, which started service on February 13<sup>th</sup>. These were partially offset by the year-over-year decline in mobile browser games, *HIT*, and *HIDE AND FIRE*.

Revenues from North America in Q1 were in the range of our outlook.

While *Choices*, *Dominations*, and *MapleStory* PC decreased, revenues were up year-over-year, driven by contributions from *MapleStory M*, *Darkness Rises*, and *MapleStory 2*, all of which launched in 2018, as well as mobile game *AxE*, which began service on February 21<sup>st</sup>.

Revenues from the Europe and Others in Q1 exceeded our outlook, driven by stronger-than-expected contributions from *MapleStory* in Taiwan and Hong Kong.

Revenues were up year-over-year, primarily driven by contributions from *MapleStory M*, *Darkness Rises*, and *Moonlight Blade*, all of which launched in 2018, as well as *AxE*, which began service on February 21<sup>st</sup>, and *Crazy Arcade BnB M*, which began service on March 21<sup>st</sup>.

Now turning to our Q2 2019 outlook.

In Q2 2019, we expect the Chinese Yuan and Korean Won – major currencies in our business – to depreciate against the Japanese yen and negatively impact the as-reported basis performances in China and Korea.

For Q2 2019, we expect revenues in the range of 52.1 to 56.7 Bn yen, representing a 9% to 19% increase year-over-year on an as-reported basis and a 12% to 22% increase year-over-year on a constant currency basis.

By region, we expect revenues to decrease or to slightly increase year-over-year in China and increase in all other regions.

We expect our operating income to be in the range of 12.6 to 16.3 Bn yen, representing a 21% decrease to 2% increase year-over-year on an as-reported basis. I'll discuss the details shortly.

We expect the net income to be in the range of 14.6 to 17.8 Bn yen, representing a 55% to 45% decrease year-over-year on an as-reported basis. In Q2 2018, we recorded an FX gain of 15.5 Bn yen. We do not expect such a gain in Q2 2019, which is the primary reason we expect a decrease in our net income.

Excluding the impact of the FX gain, we expect our net income to decrease 13% or to increase 6% year-over-year.

In China, we introduced the Labor Day update to our key PC online game, *Dungeon&Fighter*, on April 23<sup>rd</sup>. It's off to a good start and has been going well.

We're also scheduled to introduce the 11<sup>th</sup> Anniversary Update in June.

MAUs in April were up year-over-year, while the number of paying users decreased compared to the high base in Q2 2018. ARPPU increased year-over-year.

Reflecting these factors, we expect *Dungeon&Fighter's* local-currency basis revenue in Q2 to be roughly flat year-over-year, even compared to the high base set in Q2 2018.

Overall, we expect revenues from our China business in the range of 21.4 to 23.6 Bn yen, representing a 8% decrease to 2% increase year-over-year on an as-reported basis and a 5% decrease to 5% increase year-over-year on a constant currency basis.

In Korea, we expect PC revenues to increase year-over-year, driven by key titles, including *FIFA ONLINE 4* and *MapleStory*.

As in the case of Q1, we expect significant increase in *FIFA ONLINE 4's* revenue versus last Q2, when it was negatively impacted by the service transition.

Moreover, we expect *MapleStory's* momentum to continue from Q1 and its revenue to increase even compared to last Q2, when it grew by 61% year-over-year, driven by the successful 15<sup>th</sup> anniversary events and large-scale content update.

We expect our mobile revenues in Korea to increase year-over-year. While we expect *OVERHIT* and *AxE* to decrease year-over-year, we expect to benefit from *FIFA ONLINE 4M*, *Lyn*, and the new MMORPG *TRAHA*, which we launched in April.

Overall, we expect revenues of our Korea business to be in the range of 18.0 to 19.1 Bn yen, representing a 16% to 23% increase year-over-year on an as-reported basis and a 20% to 27% increase year-over-year on a constant currency basis, driven by both PC and mobile business.

In Japan, we expect revenues to be in the range of 4.3 to 4.9 Bn yen, representing a 32% to 48% increase year-over-year on an as-reported basis and a 34% to 51% increase year-over-year on a constant currency basis. While we expect *OVERHIT* and mobile browser games to decrease year-over-year, we expect to benefit from *FAITH*, *Dynasty Warriors: Unleashed*, *DarkAvenger X*, and *MapleStory M*, which we launched in April.

In North America, we expect revenues to be in the range of 3.5 to 3.9 Bn yen, representing a 7% to 21% increase year-over-year on an as-reported basis and a 6% to 20% increase year-over-year on a constant currency basis, primarily driven by contributions from *MapleStory M* and *AxE*.

In Europe and Other regions, we expect revenues to be in the range of 4.9 to 5.3 Bn yen, representing a 84% to 98% increase year-over-year on an as-reported basis and a 87% to 102% increase year-over-year on a constant currency basis, driven by contributions from *MapleStory M*, *AxE*, and *Moonlight Blade*, as well as *OVERHIT*, which we are schedule to launch in Q2.

In Q2 2019, we expect the operating income to be in the range of 12.6 to 16.3 Bn yen, representing a year-over-year decrease of 21% to increase of 2%.

A favorable factor compared with Q2 2018 on the operating income is the revenue increase.

Negative factors compared with Q2 2018 on the operating income are:

First, increased variable costs, including PG fees, associated with revenue increase primarily in mobile business, as well as royalty costs in relation to increase in contributions from publishing titles such as *FIFA ONLINE 4*, *TRAHA*, and *Lyn*.

Second, increased HR costs, due to an increased headcount and annual salary hike, primarily in Korea.

Third, in Q2 2018, we recorded a 2.7 Bn yen gain on the step acquisition under Other Income in reference to the acquisition of additional shares of NAT Games and its consolidation. We expect Other Income to decrease as we do not expect such a gain in Q2 2019.

Lastly, increased Other Expense due to an impairment loss. In Q1 2019, we adopted IFRS 16 Leases. Related to this adoption, we have capitalized items such as office rent as right-of-use assets, which was formerly expensed. In Q2, we expect to record an impairment loss of approximately 1.4 Bn yen of these assets, which are assessed to have no value.

The high end of the range reflects the fact that we expect the impact of positive driver to be larger than that of negative drivers, resulting in a year-over-year operating income increase.