

NEXON Co., Ltd.

Q1 2022 Earnings Prepared Remarks

May 12, 2022

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

Thank you, Kawai-san, and welcome everyone to Nexon's First Quarter 2022 earnings call.

On today's call, we will update you on the flawless launch of a new mobile Virtual World; we'll tell you about incremental improvements to our biggest game in China; and steadily increasing performance of several games in Korea. We'll update you on our plan for international expansion with the global launch of multiple new Virtual Worlds. We think our performance in the first quarter gives us momentum to deliver even better results in Q2 and that the momentum will carry across our full fiscal year.

Last quarter we told you that Nexon is a loaded spring, with multiple potential catalysts for growth. We believe that continuous improvements in our existing portfolio, compounded with new revenue from big launches in 2022 and 2023 will dramatically expand our trajectory for growth in the coming years.

With that context, I will now review highlights of our First Quarter. On March 24, Nexon launched *Dungeon&Fighter Mobile* in Korea – the first of multiple new Virtual Worlds scheduled for release this year. While we measure success in years, rather than weeks, we couldn't be more excited about the quality of this game and the flawless launch delivered by our team.

Dungeon&Fighter Mobile significantly exceeded the high end of our estimates for both engagement and revenue. Players and critics praised the gameplay, content and a monetization strategy that distinguished *Dungeon&Fighter Mobile* from competitors. Since launch, *Dungeon&Fighter Mobile* has spent most of its time fluctuating between the #1 and #3 positions in rankings of top-grossing games on both the Apple and Google platforms.

Importantly, *Dungeon&Fighter Mobile* did not cannibalize our PC game, in either revenues or engagement. Rather, the PC game experienced as much as a 20% increase in active users since launch of the mobile game. We see this as another proof point, joining *MapleStory*, that mobile enhances, rather than detracts from our PC business.

Having now generated life-to-date revenue of well over \$20 billion worldwide, *Dungeon&Fighter* is one of the world's top grossing entertainment franchises. Its pattern of growth over the decades has been non-linear – sometimes it has dipped, sometimes it has grown robustly. That is a natural pattern in a long-lived Virtual World. But over time it has grown, and we believe strongly that its best days are ahead of it, on each platform.

Another of our blockbusters in Korea, *FIFA Online 4*, significantly outperformed our expectations, achieving the highest sales on record. We think careful management of live operations and well-received promotions have been two keys to its success.

Next, is *MapleStory*. The game performed as expected, down double digits year-over-year in Q1 based on a very high comp in Q1 of 2021.

Nonetheless, in Q2 we expect the game will be up by double-digit percentage in year over year growth – and that it will continue that growth trajectory for the balance of the current year, at least.

In China, *Dungeon&Fighter* PC was slightly lower than our expectations in Q1, but it nonetheless grew year-over-year, as we expected.

Going forward, our view is that its growth profile will continue or potentially accelerate, despite – or perhaps because of – our care not to over-monetize.

Next I'd like to offer an update on new games in our pipeline.

We are very excited about our pipeline over the coming 12 to 24 months, and as we've said before, several of our major new launches could represent step-function growth in our revenue- and earnings-generating capability, stacking on top of the strong performance of our existing games.

First, we will shortly be releasing *DNF Duel* – a new action fighting game based on the DnF lore. *DNF Duel* is a 1:1 action fighting game, and reflects our objective to introduce the DnF franchise to an even broader audience. *DNF Duel* is a departure from our F2P business model, and will be offered via paid download for PC and consoles. The game is being developed in partnership with Arc System Works – a highly respected creative team in Japan – and is scheduled to launch on June 28 in key markets including Europe, Japan, Korea, and North America.

Next, *KartRider: Drift* is the next generation of one of our most popular online game franchises. Unlike other kart racing games, *KartRider: Drift* will be available on multiple platforms: PC, console and mobile, and be fully cross-platform. *KartRider: Drift* is fully free-to-play, and it is built from the ground up as an online experience, which means it benefits from sophisticated match-making and social features. And, unlike other franchises in the space, KRD allows for significant customization by the player. *KartRider: Drift* is scheduled for a global launch in the second half of this year.

Next is *ARC Raiders*, an all-new Virtual World from Nexon's Embark Studios in Sweden. The development team is iterating on gameplay, developing out modes, and adding content. Later this month, *ARC Raiders* will be conducting its largest community test with external players.

Another Virtual World being developed by Embark is code-named *Discovery*. *Discovery* is a first-person-shooter Virtual World, and we expect to launch it within the next 12 months. We haven't yet released

many details about *Discovery*, but the team recently completed a closed external playtest that earned high marks from participants. I can tell you that development has been proceeding at fast pace, thanks in part to the tech stack Embark has built for rapid game development. We think the game experience is unlike anything FPS players have seen.

Finally, *MABINOGI MOBILE*, is a next-generation mobile version of one of our longest-running, most beloved MMORPG franchises. We are currently polishing the gameplay to provide great game experiences to our players. *MABINOGI MOBILE* will be a full MMORPG experience on mobile, similar to the approach we've taken to *Dungeon&Fighter Mobile*. So, we think it could have PC-level retention characteristics, but with a much bigger and more international total addressable market.

Before Uemura-san runs you through the details of Q1 and our outlook for Q2, I'd like to close by reflecting the confidence our management team feels about both our current performance, and the fundamental strategy that underpins that performance.

As we have been saying previously, we set out two and a half years ago to narrow our focus to a fewer number of our key virtual world franchises, invest our resources much more heavily in those franchises, bring them to a much wider audience through mobile and other platforms, and leverage our unique technology stack for building and operating massive virtual worlds.

This strategy has been paying off, both in the operation of our existing virtual worlds – which have been performing very solidly – and in introduction of new virtual worlds, such as the success we've experienced in the introduction of Mobile DnF in Korea.

In short, our strategy is working. More importantly, we believe we are in the early innings of a period of strong performance of live franchises as well as very exciting new launches. In the coming quarters, we expect the result of this activity will be a step-function growth in our revenue and earnings profile.

With that, I'll hand the call over to Uemura-san.

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

Thank you, Owen. Now, I'll review our Q1 2022 results.

For additional details, please see the Q1 2022 Investor Presentation available on our IR website.

In Q1, Group revenues were 91.0 Bn yen, up 3% year-over-year on an as-reported basis and down 1% year-over-year on a constant currency basis – within the range of our outlook.

Dungeon&Fighter Mobile, which launched on March 24, is off to a good start, exceeding our expectations. In addition, *FIFA ONLINE 4* and *MapleStory* in the Rest of World, were also better than our expectations, while the performance of *Dungeon&Fighter* in China was slightly lower than planned.

By region, revenues from Korea, North America and Europe, and the Rest of World each exceeded our expectations, and Japan was in the range of our outlook. Revenues from China came in slightly lower than expected.

Looking at the total company performance by platforms, PC revenues were in the range of our expectations while mobile revenues exceeded our outlook.

Operating income which was down 11% year-over-year was within our outlook at 38.5 Bn yen. As we explained on our last earnings call, the higher costs are due to increases in HR costs and marketing expenses.

Net income was 40.3 Bn yen, exceeding our outlook while down 13% year-over-year.

The outperformance was primarily driven by an FX gain of 12.7 Bn yen related to the depreciation of the Korean Won and Japanese Yen against the U.S. dollar during the quarter and its corresponding impact on U.S. dollar-denominated cash deposits

Let's move on to results by region.

Revenues from our Korea business exceeded our outlook as *FIFA ONLINE 4* and *Dungeon&Fighter Mobile*, which launched on March 24th, significantly exceeded our expectations.

On a year-over-year basis, revenues decreased by 5% on an as-reported basis and by 6% on a constant currency basis.

MapleStory's revenue decreased year-over-year as expected but was at the high end of our outlook driven

by the well-received Winter update.

Since last year, we have continued to focus on strengthening our mid- to long-term relationship with our players rather than seeking short-term revenues. As a result, Net Promoter Score continuously improved and recovered to almost the same level as the time when we had strong performance before the probability issue came up.

FIFA ONLINE 4's PC and mobile combined revenues significantly exceeded our outlook driven by the well-received package offerings and sales promotions, achieving record-breaking quarterly revenue.

Sudden Attack grew by 18% year-over-year while *Dungeon&Fighter*'s revenue decreased year-over-year as expected.

While *FIFA ONLINE 4* and *Sudden Attack* grew year-over-year, these were more than offset by revenue decreases from *Dungeon&Fighter* and *MapleStory*, which performed extremely well last year. Consequently, PC revenues in Korea decreased by 9% year-over-year.

As for the mobile business, revenues exceeded our outlook driven by the strong performances of *FIFA ONLINE 4 M* and *Dungeon&Fighter Mobile*, which is off to a good start.

Driven by high recognition of DNF IP built up through the long-running operation on the PC platform, *Dungeon&Fighter Mobile* attracted many brand-new players as well as sleeping players of the PC version.

We offered high-quality rich content, and prioritized delivering fun to our players over revenue gains. We also chose not to introduce an auto-play function which prevails in the mobile market in Korea. Instead, we provided fresh game experiences with manual play optimized for mobile devices. These initiatives were well-received by players and the game has continued to perform well since its launch.

As we have explained in the past, entertaining players and being customer centric would improve a game's retention and lead to the success of the business. We believe that the great start of *Dungeon&Fighter Mobile* proves our thesis.

On a year-over-year basis, mobile revenues increased by 6%. Contributions from *Dungeon&Fighter Mobile* and *Blue Archive*, as well as the growth in *FIFA ONLINE 4 M* were partially offset by revenue decreases in *V4* and *The Kingdom of the Winds: Yeon*.

On a quarter-over-quarter basis, mobile revenues increased by 34% primarily driven by a contribution from *Dungeon&Fighter Mobile* and seasonal revenue increases in *FIFA ONLINE 4 M* and *MapleStory M*.

Revenues from our China business were slightly below our outlook, but increased 15% year-over-year on an as-reported basis and 5% year-over-year on a constant currency basis.

For *Dungeon&Fighter*, revenue increased year-over-year driven by the well-received package offerings for the Lunar New Year update introduced on January 20th.

We continued to focus on increasing user engagement rather than short-term monetization. As a result, user metrics trended stably, while revenue was slightly lower than planned.

Quarter-over-quarter, MAUs, paying users, ARPPU and revenue increased due to seasonality.

Year-over-year, MAUs and paying users decreased while ARPPU and revenue increased driven by well-received Lunar New Year package sales.

Revenues from Japan decreased by 17% year-over-year. While there was a contribution from *COUNTER: SIDE*, this was more than offset by revenue decreases from *TRAHA*, *V4* and *Blue Archive*.

Revenues from North America and Europe decreased by 2% year-over-year due to revenue decreases from *Choices* and *MapleStory* despite a contribution from *Blue Archive* and the growth in *MapleStory M*.

Revenues from the Rest of World increased by 42% year-over-year driven by the growth in *MapleStory* and *MapleStory M* as well as a contribution from *Blue Archive*.

Moving on to our FY2022 second quarter outlook.

We reiterated that our focus on user engagement would lead to stable growth of our major franchises in the mid- to long-term. This strategy is working well, and in Q2, we expect to see a turn-around and year-over-year growth in Korea *MapleStory*, which experienced year-over-year revenue decreases over several quarters. We also expect China *Dungeon&Fighter* and *FIFA ONLINE 4* to grow as in the first quarter.

As for *Dungeon&Fighter Mobile*, we expect it to maintain its strong momentum following the launch and to drive our group business significantly.

Consequently, we expect our Q2 group revenues in the range of 81.3 to 87.3 Bn yen, representing a 45% to 56% increase year-over-year on an as-reported basis and a 36% to 45% increase year-over-year on a constant currency basis.

We expect our Q2 operating income to be in the range of 22.7 to 27.3 Bn yen, representing a 47% to 77% increase year-over-year on an as-reported basis and a 30% to 58% increase year-over-year on a constant currency basis. I'll discuss the details on this shortly.

We expect net income to be in the range of 16.1 to 19.7 Bn yen, representing a 80% to 120% increase year-over-year on an as-reported basis and a 55% to 91% increase year-over-year on a constant currency basis.

In Korea, we expect *Dungeon&Fighter Mobile*, which continues to maintain its strong momentum following the launch, to drive our business. Also, we expect year-over-year growth in *FIFA ONLINE 4 MapleStory* and *Dungeon&Fighter*.

Consequently, we are looking for revenue in Korea to be in the range of 49.0 to 52.0 Bn yen, representing a 50% to 59% increase year-over-year on an as-reported basis and a 43% to 52% increase year-over-year on a constant currency basis.

As for the PC business, we expect *Sudden Attack's* revenue to decrease while *FIFA ONLINE 4* to grow significantly year-over-year.

We also expect year-over-year growth in *Dungeon&Fighter*. Its active users have increased – driven by a synergy effect following the mobile launch.

As for *MapleStory*, we expect its revenue to increase in Q2 as we had planned.

We will increase player retention and achieve mid- to long-term growth by strengthening the relationship with our players and offering fun game experiences.

Consequently, we expect PC revenues in Korea to increase year-over-year.

Regarding the mobile business in Korea, we expect Q2 revenues to roughly double year-over-year.

We expect a contribution from *Blue Archive* and year-over-year growth in *FIFA ONLINE 4 M* in addition to a significant contribution from *Dungeon&Fighter Mobile*. We expect these to be partially offset by year-over-year revenue decreases in *V4*, *The Kingdom of the Winds: Yeon*, and *KartRider Rush+*.

Turning to China, we expect revenues from our China business to be in the range of 20.9 to 22.6 Bn yen, representing a 55% to 67% increase year-over-year on an as-reported basis and a 36% to 47% increase year-over-year on a constant currency basis. Our performance in China will be driven by the anticipated increase in *Dungeon&Fighter's* revenue.

We introduced the Labor Day update for *Dungeon&Fighter* on April 21st, which includes avatar package offerings. Since the Labor Day update was well-received by players, paying users and ARPPU were all up year-over-year in April. Therefore, we expect its second quarter revenue to increase year-over-year.

We also hope to increase active users and paying users following the Level cap release scheduled in Q2 and to operate the game to achieve mid- to long-term healthy growth.

In Japan, we expect revenues in the range of 2.2 to 2.6 Bn yen, representing a 2% to 20% increase year-over-year on an as-reported basis and a 1% decrease to 17% increase year-over-year on a constant currency basis. We anticipate a contribution from *COUNTER: SIDE* to be partially offset by decreases from *TRAHA* and *V4*.

In North America and Europe, we expect revenues to be in the range of 5.5 to 6.1 Bn yen, representing a 24% to 38% increase year-over-year on an as-reported basis and a 13% to 26% increase year-over-year on a constant currency basis. We anticipate contributions from *DNF Duel*, which is scheduled to launch on June 28th, and *Blue Archive*, as well as growth in *MapleStory M*. These are expected to be partially offset by decreases from *Choices* and *MapleStory*.

We expect revenues in the Rest of World in the range of 3.7 to 4.0 Bn yen, representing a 14% to 23% increase year-over-year on an as-reported basis and a 8% to 16% increase year-over-year on a constant currency basis. We anticipate growth in *MapleStory* and *MapleStory M*.

In Q2 2022, we expect operating income to be in the range of 22.7 to 27.3 Bn yen, representing a year-over-year increase of 47% to 77%.

Favorable factors compared to Q2 2021 regarding the operating income include a revenue increase. Regarding costs compared to Q2 2021,

we expect increased variable costs due to a revenue increase.

Next, we expect increased HR costs related to headcount for development and launch of multiple new Virtual Worlds as well as bonus accruals to teams with great performances.

Lastly, we expect increased marketing expenses primarily associated with promotions for *Dungeon&Fighter Mobile*.

The high end of operating income is expected to increase year-over-year driven by significant revenue growth.

Overall, in Q1 2022, player engagement steadily improved in our major titles, *Dungeon&Fighter* in China and *MapleStory* in Korea. Also, the launch of *Dungeon&Fighter Mobile* significantly exceeded our expectations. As a result, we are off to a good start in Q1 toward achieving growth in 2022 and beyond.

In Q2 2022, we are pleased to expect significant growth. We expect existing franchises including two major ones and *FIFA ONLINE 4* to grow robustly, and we also expect strong contributions from our new titles, *Dungeon&Fighter Mobile* and *DNF Duel*.

In addition, we are making good progress in the development of *KartRider: Drift*, *ARC Raiders*, and other anticipated new titles for launch in 2H 2022. As we have reiterated, we are excited to achieve growth in 2022 and beyond by layering these highly anticipated titles on top of our stable revenue foundation of existing business.

Last, I would like to provide an update on the shareholder return strategy.

Regarding our three-year 100Bn yen share repurchase policy that we announced on November 10, 2020, we have completed 40 Bn yen share repurchase by April.

As for the remaining 60 Bn yen, we plan to conduct the share repurchase by November 2023 by considering several factors including investment opportunities, financial conditions, as well as the share price.

This ends my comments.

Back to you Owen.

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

Thank you Uemura-san.

Before we go to your questions, I'd like to offer some thoughts on Nexon's bright future within the context of the larger entertainment world.

As everyone on this call knows, the global entertainment industry is undergoing significant changes right now, and investors everywhere are justifiably struggling to decide which segment or business model of tech and entertainment is likely to thrive in this changing world.

It has been our view that a well-run Virtual Worlds company, deeply focused on a great customer experience, has extremely robust growth potential, no matter what is going on in the global business cycle,

supply chains, or other disruptions. We believe we are proving out this thesis now. Let me briefly explain why.

First, we have significant catalysts upcoming, in the form of product launches of highly appealing virtual worlds, designed for global markets, delivered on platforms such as mobile and console that collectively represent an order-of-magnitude increase in our total addressable market. We have been laser-focused on making these products great. We think the launch of MDNF in Korea – while big – represents merely an early proof-point, and we have multiple additional launches on the way. Any one of these catalysts could result in a step-function growth in revenue and earnings.

Second, our new launches stack on top of our existing Virtual Worlds business, which is robust and growing in its own right.

We are often asked whether Nexon is a “metaverse company”. We struggle with a quick answer, since the term is so undefined, but more importantly misses the underlying business reality. That is, a strong, well-managed Virtual Worlds business is incredibly robust, and can in fact double in size over the course of a few years, even if we were not to launch any new Virtual Worlds.

This aspect means the business of Virtual Worlds is highly distinct from the traditional games business, which relies specifically on new launches to even stay in place. And such longevity at scale in fact justifies the hype that all the talk of the Metaverse has engendered. But it is a unique, hard-to-replicate skill set, so we have focused on continuous improvement in both our live operations capability, and our proprietary tech stack, so that this unique set of capabilities can grow over time, like compounding interest.

Third, we think we are in very early innings. This is a massive global opportunity. The US and Japanese markets are much bigger than some of our traditional markets, and several of our planned launches target these expansion markets. And, while we have traditionally been a PC-focused company, the installed base of mobile phones with high-end graphics and networking represent a 10x expansion from PC of our total addressable market.

Finally, and importantly now, we have built a business designed to thrive in any economic climate. We have been disciplined in our cost control and amassed over \$6 billion in cash and financial assets, with no debt, and we generate \$1 billion of additional cash each year. We are insulated from Forex concerns and inflation, and we have never been affected by supply chain issues.

And our business has historically performed best in times of economic upheaval, since it is built on the idea of giving entertainment away for free, monetizing from a small percentage of active users, and avoiding over-monetizing those users in favor of giving more value for money than any other entertainment

form.

Net, we think we have one of the great businesses on the planet, not just in games or even entertainment, but of any type, anywhere in the world. We have a great runway ahead of us, and we are more optimistic about the future performance of Nexon than we ever have been.

With that, operator we are ready to take questions.